2003 Interim Projects

Select Committee on Pension Policy

Office of the State Actuary
P.O. Box 40914, Olympia, WA 98504-0914
360-753-9144--actuary_st@leg.wa.gov

Select Committee on Pension Policy

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2003 Interim Issues
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$1,000 Minimum Benefit: Retired 20 Years with 25 Years of Service

Background

The minimum benefit amount for PERS 1 and TRS 1 members was established in 1995 at $24.22 times a member's service credit years. The minimum benefit amount increases each year by the annual increase amount: at least three percent plus any gain-sharing distributions. Currently, the minimum benefit is $31.76; a member with 25 years of service would receive a monthly benefit, prior to reductions for payment options or withdrawals, of $794.

As of the most recent valuation, there were 636 PERS 1 members and 652 TRS 1 retirees who had served at least 25 years, had been retired 20 years, and their benefit was less than $1,000 per month.

Committee Activity

Presentation:
December 16, 2003 - Full Committee Meeting

Proposal Approved:
December 16, 2003 - Full Committee Meeting

Recommendation to Legislature

Establish a minimum benefit, prior to reductions for payment options or withdrawals, of $1,000 per month for retirees with at least 25 years of service and who have been retired at least 20 years.

Staff Contact

Robert Wm. Baker – 586-9237 – baker_bo@leg.wa.gov

$1,000 Minimum Benefit: Retired 20 Years with 25 Years of Service

(December 10, 2003)

Issue

Establish a minimum retirement benefit of $1,000 per month for PERS 1 and TRS 1 members with at least 25 years of service and who've been retired at least 20 years.

Staff

Robert Wm. Baker (360) 586-9237

Members Impacted

As of the most recent valuation there were 54,006 PERS 1 retirees and 33,148 TRS 1 retirees. Of these, 636 PERS 1 members and 652 TRS 1 retirees had served at least 25 years, had been retired 20 years, and received a benefit of less than $1,000 per month. Before optional payment reductions, these retirees had an average benefit of $870. Their average age was 84 in PERS and 89 in TRS.

Current Situation

PERS 1 and TRS 1 retirees are eligible to receive the Uniform COLA at age 66 after at least one year of retirement. They are also eligible for the current minimum benefit of $31.76 per month times their years of service (a member with 25 years of service would be eligible for $794 per month.) Both the Uniform increase amount and the minimum benefit amount increase by at least 3% per year, and by gain-sharing distributions when available.

History

The Uniform COLA for PERS 1 and TRS 1 retirees was instituted in 1995.

The minimum benefit for PERS 1 and TRS 1 retirees was instituted in 1995.

Numerous bills have been introduced to address PERS 1 and TRS 1 COLAs, examples of which include HB 1197 and SB 5097 introduced in the 2003 session. This legislation would have allowed PERS 1 and TRS 1 retirees, who have been retired at least one year, to receive the Uniform COLA on July 1st of the calendar year in which they turn age 66. Neither bill received a hearing.

Other legislation has attempted to increase PERS 1 and TRS 1 COLAs through the gain-sharing chapter such as SB 5516 and HB 1426 which were introduced in the 2003 session. This legislation would have increased the frequency of gain-sharing distributions and distributed the odd-year amounts based on a formula where 1 point would be awarded for each year of service and 2 points for each year of retirement. Neither bill received a hearing.

Policy Analysis

The plan 2/3s include COLA provisions that, after one year of retirement, increase a retiree's benefit by a maximum of 3% based on the Seattle CPI-W. The Uniform COLA amount, available to PERS 1 and TRS 1 retirees who have been retired at least one year and are age 66, is a fixed dollar amount multiplied by the retiree's years of service, not a percentage increase in the retiree's benefit; as a result, it is of greater value to low-benefit retirees, and of lesser value to high-benefit retirees.

PERS 1 and TRS 1 members retired for extended periods have the greatest diminishment in the purchasing power of their benefit. Based on changes in the CPI-W for Seattle, it is estimated that the benefit of an average PERS 1 member loses 10 percent of its purchasing power after 5 years of retirement and 20 percent after 10 years.

PERS 1 and TRS 1 members may retire at age 60 with 5 years of service, at age 55 with 25 years of service, or at any age with 30 years of service.

PERS, SERS, and TRS members may receive an unreduced retirement at age 65 with 5 years of service (in the plan 3, it is 10 years of service and attainment of age 65.) At age 55, after 30 years of service, a member may receive a benefit reduced 3% per year from age 65. At age 55, after 20 years of service, a member may receive an actuarially reduced retirement benefit.

Estimated Fiscal Impact

As this would be a nonautomatic benefit adjustment, RCW 41.45.070(5) requires that it be funded on a pay-as-you-go basis. The cost to increase these retirees' unreduced benefit to $1,000 per month was estimated to June 30, 2010 because by July 1, 2010 the Minimum Benefit Amount will be at least $41.07 which would result in an allowance of $1,027 for a member with 25 years of service.

	TRS	PERS	Total
2004-2005	$448,937	$509,524	$958,461
2005-2007	$464,204	$564,715	$1,028,919
Through June 30, 2010*	$1,091,698	$1,341,034	$2,432,732

******Cost estimated through June 30, 2010 because the minimum benefit will be $41.07 on July 1, 2010 resulting in a $1,027 allowance for a member with $25 years of service.*

Because of the lag between the valuation data (September 2002) and the date of possible first adjustment (July 1, 2004), the number of retirees eligible for this minimum would decline to 457 TRS 1 members and 486 PERS 1 members.

Administrative Impact (DRS)

Input requested.

Executive Committee Recommendation

Forward the issue to the Full Committee for their consideration.

Bill Draft

See attachment.

Fiscal Note (Draft)

See attachment.

FISCAL NOTE – DRAFT

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**12/10/03**	**Z-0935.2/04**

SUMMARY OF BILL:

This bill impacts the Public Employees' Retirement System Plan 1 and Teachers' Retirement System Plan 1 by establishing a $1,000 per month minimum benefit, before optional payment reductions, for those members with at least 25 years of service and who have been retired at least 20 years.

Effective Date: July 1, 2004

CURRENT SITUATION:

PERS 1 and TRS 1 retirees are eligible to receive the Uniform COLA at age 66 after at least one year of retirement. They are also eligible for the Minimum Benefit which is currently $31.76 per month times a member's years of service – a member with 25 years of service would be eligible for $794 per month. Both the Uniform increase amount and the Minimum Benefit amount increase by at least 3% per year, and by gain-sharing distributions when available.

MEMBERS IMPACTED:

As of the most recent valuation there were 54,006 PERS 1 retirees and 33,148 TRS 1 retirees. Of these, 636 PERS retirees and 652 TRS retirees had served at least 25 years, had been retired 20 years, and their benefit was less than $1,000 per month. Before optional payment reductions, these retirees had an average benefit of $870. Their average age was 84 in PERS and 89 in TRS. Additional members will be eligible in the future. The current Minimum Benefit of $31.76 per month per years of service, however, will eventually increase to more than $1,000 for all members with at least 25 years of service, before optional payment reductions, and at that time there will be no additional payments because of this bill.

FISCAL IMPACT:

Description:

As this would be a non-automatic post retirement benefit adjustment, RCW 41.45.070(5) requires that it be funded on a pay-as-you-go basis. The cost to increase these retiree's unreduced benefit to $1,000 per month was estimated to June 30, 2010 because by July 1, 2010 the Minimum Benefit Amount will be at least $41.07 which would result in an unreduced allowance of $1,027 for a member with 25 years of service.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

(Dollars in Millions)		Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	PERS 1	$12,532	$1.0	$12,533
	TRS 1	$10,209	$0.8	$10,210
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	PERS 1	$1,393	$1.0	$1,394
	TRS 1	586	$0.8	587
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	PERS	$925	$1.0	$926
	TRS	$236	$0.8	$237

Increase in Contribution Rates:

2004-2005		
Employee	PERS	0.00%
	TRS	0.00%
Employer State	PERS	0.01%
	TRS	0.01%
2005-2007		
Employee	PERS	0.00%
	TRS	0.00%
Employer State	PERS	0.00%
	TRS	0.01%

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	**PERS**	**TRS**	**Total**
2004-2005			
State:			
General Fund	$ 0.1	$ 0.4	$ 0.5
Non-General Fund	0.2	0.0	0.2
Total State	**$0.3**	**$0.4**	**$0.7**
Local Government	$0.2	$0.1	$0.3
Total Employer	$0.5	$0.5	$1.0
Total Employee	$0.0	$0.0	$0.0
2005-2007			
State:			
General Fund	$ 0.1	$ 0.4	$ 0.5
Non-General Fund	0.2	0.0	0.2
Total State	**$0.3**	**$0.4**	**$0.7**
Local Government	$0.3	$0.1	$0.4
Total Employer	$0.6	$0.5	$1.1
Total Employee	$0.0	$0.0	$0.0
2004-2029			
State:			
General Fund	$ 0.3	$ 0.9	$ 1.2
Non-General Fund	0.4	0.0	0.4
Total State	**$0.7**	**$0.9**	**$1.6**
Local Government	$0.6	$0.2	$0.8
Total Employer	$1.3	$1.1	$2.4
Total Employee	$0.0	$0.0	$0.0

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2002 actuarial valuation report of the Teachers' Retirement System and the Public Employees' Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following: None.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2004 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:
- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

AN ACT Relating to establishing a one thousand dollar minimum monthly benefit for public employees' retirement system plan 1 members and teachers' retirement system plan 1 members who have at least twenty-five years of service and who have been retired at least twenty years; and amending RCW 41.32.4851 and 41.40.1984.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.32.4851 and 1995 c 345 s 3 are each amended to read as follows:

(1) No one who becomes a beneficiary after June 30, 1995, shall receive a monthly retirement allowance of less than twenty-four dollars and twenty-two cents times the number of years of service creditable to the person whose service is the basis of such retirement allowance.

(2) If the retirement allowance payable was adjusted at the time benefit payments to the beneficiary commenced, the minimum allowance provided in this section shall be adjusted in a manner consistent with that adjustment.

(3) Beginning July 1, 1996, the minimum benefit set forth in subsection (1) of this section shall be adjusted annually by the annual increase.

(4) Those receiving a temporary disability benefit under RCW 41.32.540 shall not be eligible for the benefit provided by this section.

<u>(5) Beginning July 1, 2004, the minimum benefit set forth in subsection (1) of this section, prior to adjustments set forth in subsection (2) of this section, for a beneficiary with at least twenty-five years of service and who has been retired at least twenty years shall be one thousand dollars per month.</u>

Sec. 2. RCW 41.40.1984 and 1995 c 345 s 7 are each amended to read as follows:

(1) Except as provided in subsections (4) and (5) of this section, no one who becomes a beneficiary after June 30, 1995, shall receive a monthly retirement allowance of less than twenty-four dollars and twenty-two cents times the number of years of service creditable to the person whose service is the basis of such retirement allowance.

(2) Where the retirement allowance payable was adjusted at the time benefit payments to the beneficiary commenced, the minimum allowance provided in this section shall be adjusted in a manner consistent with that adjustment.

(3) Beginning July 1, 1996, the minimum benefit set forth in subsection (1) of this section shall be adjusted annually by the annual increase.

(4) Those receiving a benefit under RCW 41.40.220(1) or under RCW 41.44.170 (3) and (5) shall not be eligible for the benefit provided by this section.

(5) For persons who served as elected officials and whose accumulated employee contributions and credited interest was less than seven hundred fifty dollars at the time of retirement, the minimum benefit under subsection (1) of this section shall be ten dollars per month per each year of creditable service.

<u>(6) Beginning July 1, 2004, the minimum benefit set forth in subsection (1) of this section, prior to adjustments set forth in subsection (2) of this section, for a beneficiary with at least twenty-five years of service and who has been retired at least twenty years shall be one thousand dollars per month.</u>

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Background

PERS 1 and TRS 1 retirees are first eligible to receive Uniform COLA increases when they have attained age 66 and been retired one year. Currently the determination of eligibility is made on July 1 of each year. As a result, retirees with birthdays after July 1 do not become eligible to receive the increase until the following year.

Committee Activity

Presentation:
November 18, 2003, Full Committee

Proposal Approved:
November 18, 2003, Full Committee

Recommendation to Legislature

Amend Uniform COLA eligibility to include all PERS 1 and TRS 1 retirees who have been retired one year and will have attained age 66 by December 31 of the calendar year in which the increase is given.

Staff Contact

Laura Harper – 360-586-7616 – harper_la@leg.wa.gov

Age 66 COLA

(November 10, 2003)

Issue

Allowing PERS 1 and TRS 1 retirees who have been retired for at least one year to begin receiving the Uniform COLA on July 1 of the calendar year in which they turn age 66.

Staff

Laura Harper (360) 586-7616

Members Impacted

Approximately 25,000 TRS 1 and 37,000 PERS 1 members who are under age 65 would be affected by this bill.

Current Situation

The current Uniform COLA provisions require PERS 1 and TRS 1 members to have been retired one year and to be at least age 66 on July 1^{st} to be eligible for the adjustment paid on July 1^{st}.

History

The Joint Committee on Pension Policy (JCPP) recommended HB 1197 and SB 5097 to the 2003 legislature. This legislation would have allowed PERS 1 and TRS 1 members, who had been retired for at least one year, to begin receiving the Uniform COLA on July 1^{st} of the calendar year in which they reached age 66. Neither bill received a hearing.

Policy Analysis

PERS 1 or TRS 1 members who have been retired at least one year, and whose birthdate is from January 1^{st} to July 1^{st}, receive their first COLA on July 1^{st} of the calendar year in which they turn age 66 -- at the latest, 6 months after reaching age 66. Members who have been retired at least one year, and whose birthdate is from July 2^{nd} to December 31^{st}, receive their first COLA anywhere from 6 months to almost 1 year after reaching age 66.

Estimated Fiscal Impact

See attachment

Bill Draft

See attachment

FISCAL NOTE – DRAFT

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**11/10/03**	**Z-0875.1/04**

SUMMARY:

This bill impacts the Public Employees' Retirement System (PERS) Plan 1 and Teachers' Retirement System (TRS) Plan 1 by allowing those who have been retired for one year, and will be at least age 66 by December 31st, to receive the annual increase paid on July 1st of that year.

Effective Date: July 1, 2004.

CURRENT SITUATION:

The current provision requires the member to have been retired one year and to be at least age 66 on July 1st to be eligible for the annual increase paid that year. This means that some members will get their first COLA as early as age 66, while others will not get theirs until age 67. This bill would change the age eligibility so that members would get their COLA as early as age 65½, but no later than age 66½. This bill does not change the requirement that the member must be retired at least one year to receive the initial annual increase.

MEMBERS IMPACTED:

We estimate that 50% of the members who are under age 65 would be affected by this bill.

TRS Plan 1	Under Age 65	Total
Receiving a Benefit	10,964	33,148
Actives	12,259	12,456
Vested Terminated	1,785	1,819

PERS Plan 1	Under Age 65	Total
Receiving a Benefit	11,918	54,006
Actives	20,934	21,737
Vested Terminated	3,108	3,280

We estimate that for a typical member impacted by this bill, the initial annual increase would be paid one year earlier. The annual increase for July 1, 2004 is $1.21 per month for each year of service. The annual increase is increased by 3% each year and by future "gain-sharing" amounts. The typical recipient of the Uniform COLA has 20 years of service in PERS and 25 years of service in TRS.

FISCAL IMPACT:

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System (for existing members impacted by this bill) and the required actuarial contribution rate as shown below:

Teachers' Retirement System and Public Employees' Retirement System (Plan 1):

(Dollars in Millions)	**System:**	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	PERS 1	$ 12,532	$ 34	$ 12,566
	TRS 1	10,209	29	10,238
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	PERS 1	$ 1,393	$ 34	$ 1,427
	TRS 1	586	29	615
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	PERS 1	$ 925	$ 31	$ 956
	TRS 1	236	28	264
Required Contribution Rate - Employer/State	PERS	3.78%	**.03%**	3.81%
	SERS	3.64%	**.03%**	3.67%
	TRS	3.19%	**.05%**	3.24%

(All of the above increases are increases in the plan 1 uaal rate paid by all employers for each of their plan 1, 2 and 3 members. There is no increase in the normal cost rate)

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures (for existing members impacted by this bill) is projected to be:

	PERS	**TRS**	**SERS**
Increase in Contribution Rates: Effective 9/1/2004			
Employee (Plan 2)	0.00%	0.00%	0.00%
Employer	0.03%	0.05%	0.03%
Costs (in Millions):			
2004-2005[1]			
State:			
General Fund	$ 0.3	$ 1.3	$0.2
Non-General Fund	0.7	0.0	$0.0
Total State	**$ 1.0**	**$ 1.3**	**$0.2**
Local Government	$ 0.9	$ 0.2	$0.1

[1] *The UAAL basic rate was set to zero by the legislature for 2003-2005. This does not apply to future supplemental rate increases.*

	PERS	TRS	SERS
2005-2007			
State:			
General Fund	$ 0.9	$ 3.5	$ 0.6
Non-General Fund	1.7	0.0	$ 0.0
Total State	**$ 2.6**	**$ 3.5**	**$ 0.6**
Local Government	$ 2.3	$ 0.6	$ 0.5
2004-2029			
State:			
General Fund	$ 16.0	$ 54.4	$ 7.8
Non-General Fund	27.1	0.0	$ 0.0
Total State	**$ 43.1**	**$ 54.4**	**$ 7.8**
Local Government	$ 38.5	$ 10.9	$ 6.7

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2002 actuarial valuation report of the Public Employees' Retirement System and Teachers' Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

   None.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2004 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:
- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

AN ACT Relating to public employees' retirement system, plan 1 and teachers' retirement system, plan 1 age and retirement requirements for receipt of the annual increase amount; amending RCW 41.40.197 and 41.32.489; and providing an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.40.197 and 1995 c 345 s 5 are each amended to read as follows:

(1) Beginning July 1, 1995, and annually thereafter, the retirement allowance of a person meeting the requirements of this section shall be increased by the annual increase amount.

(2) The following persons shall be eligible for the benefit provided in subsection (1) of this section:

(a) A beneficiary who has received a retirement allowance for at least one year by July 1st in the calendar year in which the annual increase is given and has attained at least age sixty-six by ((~~July 1st~~)) December 31st in the calendar year in which the annual increase is given; or

(b) A beneficiary whose retirement allowance is lower than the minimum benefit provided under RCW 41.40.1984.

(3) The following persons shall also be eligible for the benefit provided in subsection (1) of this section:

(a) A beneficiary receiving the minimum benefit on June 30, 1995, under RCW 41.40.198; or

(b) A recipient of a survivor benefit on June 30, 1995, which has been increased by RCW 41.40.325.

(4) If otherwise eligible, those receiving an annual adjustment under RCW 41.40.188(1)(c) shall be eligible for the annual increase adjustment in addition to the benefit that would have been received absent this section.

(5) Those receiving a benefit under RCW 41.40.220(1), or a survivor of a disabled member under RCW 41.44.170(5) shall be eligible for the benefit provided by this section.

(6) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to receive this postretirement adjustment not granted prior to that time.

Sec. 2. RCW 41.32.489 and 1995 c 345 s 2 are each amended to read as follows:

(1) Beginning July 1, 1995, and annually thereafter, the retirement allowance of a person meeting the requirements of this section shall be increased by the annual increase amount.

(2) The following persons shall be eligible for the benefit provided in subsection (1) of this section:

(a) A beneficiary who has received a retirement allowance for at least one year <u>by July 1st in the calendar year in which the annual increase is given</u> and has attained at least age sixty-six by ((~~July 1st~~)) <u>December 31st</u> in the calendar year in which the annual increase is given; or

(b) A beneficiary whose retirement allowance is lower than the minimum benefit provided under RCW 41.32.4851.

(3) The following persons shall also be eligible for the benefit provided in subsection (1) of this section:

(a) A beneficiary receiving the minimum benefit on June 30, 1995, under RCW 41.32.485; or

(b) A recipient of a survivor benefit on June 30, 1995, which has been increased by RCW 41.32.575.

(4) If otherwise eligible, those receiving an annual adjustment under RCW 41.32.530(1)(d) shall be eligible for the annual increase adjustment in addition to the benefit that would have been received absent this section.

(5) Those receiving a temporary disability benefit under RCW 41.32.540 shall not be eligible for the benefit provided by this section.

(6) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to receive this postretirement adjustment not granted prior to that time.

NEW SECTION. **Sec. 3.** This act takes effect July 1, 2004.

--- END ---

Background

Members of the Public Employees' Retirement System (PERS), the State Employees' Retirement System (SERS) and the Teachers' Retirement System (TRS) must currently separate from service in order to qualify for retirement. The proposal would allow members who have attained age 70½ and meet the vesting requirements of their plans to apply for and receive retirement benefits without separating from service. Such individuals would continue to draw a salary but would cease active membership in their plans and would no longer accumulate service credit. The provision would not apply to state elected officials unless they leave elected office or are reappointed or reelected after the effective date of the act.

Committee Activity

Presentation:
December 16, 2003 – Full Committee Meeting

Recommendation to Legislature

None

Staff Contact

Laura Harper – 360-586-7616 – harper_la@leg.wa.gov

Age 70½

(December 10, 2003)

Issue	Allow members of PERS, SERS, and TRS plans 1, 2 and 3 who have attained age 70½ and meet the vesting requirements for their plans to apply for and receive retirement benefits without separating from service. Such individuals would continue to draw a salary but would cease active membership in their plans and would no longer accumulate service credit. The provision would not apply to state elected officials unless they leave elected office or are reappointed or reelected after the effective date of the act.
Staff	Laura Harper (360) 586-7616
Members Impacted	This proposal would impact the 470 members of PERS, SERS and TRS plans 1, 2 and 3 who are still working at age 70½ and are eligible to receive benefits.
Current Situation	Currently members of PERS, SERS, and TRS plans 1, 2 and 3 must separate from service in order to qualify for retirement.
History	In 1988 the legislature changed the Judicial, Judges, LEOFF, TRS, PERS, and WSPRS systems to allow vested members to apply for their retirement benefit after reaching age 70½ without separating from service. The stated purpose of the change was to conform to federal tax law, and the new provision was codified as RCW 41.04.065. The provision also allowed members to continue making contributions and earning service credit while receiving their retirement allowance.

RCW 41.04.065 was repealed in 1991. Current federal law does not require the State of Washington to distribute a retirement benefit to a vested member of a qualified governmental plan who is still working and has reached the age of 70½.

During the 2002 Interim the Joint Committee recommended that members of PERS, SERS, and TRS plans 1, 2 and 3 who have attained age 70½ and meet the vesting requirements of their plan be allowed to apply for retirement benefits without requiring that they separate from service. However, this recommendation did not allow such retirees to continue to make contributions and earn service credit. This proposal was introduced during the 2003 session as SB5093/HB 1209. The bill passed in the Senate but did not receive a hearing in the House.

Policy Analysis

Members of Washington's various retirement plans are paid benefits in accordance with the minimum distribution rules of the Internal Revenue Code. Section 401(a)(9)(C) of the Code codifies the minimum distribution rules applicable to qualified governmental plans. These rules require such plans to begin making payments to members by no later than a participant's "required beginning date." The required beginning date for a participant in a governmental plan is the April 1 following the **later of** the calendar year in which the member reaches age 70½ or the calendar year in which the member retires.

Washington's retirement plans meet the minimum distribution requirements of federal law. Thus the question before the committee is whether to grant an additional benefit to vested members who have reached age 70½.

Options

Only one option is proposed.

Fiscal Impact of Options

The cost of this bill is insufficient to affect contribution rates.

Administrative Impact (DRS)

Input requested.

Executive Committee Recommendation

The Executive Committee has forwarded this proposal to the full committee for consideration.

Bill Draft

See attachment.

Fiscal Note (Draft)

See attachment.

FISCAL NOTE – DRAFT

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**12/09/03**	**Z-0941.1.1/04**

SUMMARY OF BILL:

This bill impacts all of the plans of the Teachers' Retirement System (TRS), the School Employees' Retirement System (SERS) and the Public Employees' Retirement System (PERS) by permitting vested members who attain age 70½ to apply to the Department of Retirement Systems to begin their benefits without requiring that they separate from service. Upon retirement an individual may continue to work but ceases active membership and no longer makes contributions nor receives service credit. Current state elected and appointed officials are exempt from this act unless they leave elected office, are reappointed or re-elected after the effective date of the act.

Effective Date: 90 days after session.

CURRENT SITUATION:

Current law requires members of TRS, SERS, and PERS to retire before benefits begin regardless of age. This generally requires a member to first separate from service and then apply to the Department of Retirement Systems for retirement.

MEMBERS IMPACTED:

We estimate that approximately 470 members are age 70½ and eligible to receive benefits.

FISCAL IMPACT:

The cost of this bill in insufficient to affect contribution rates.

AN ACT Relating to allowing members of the teachers' retirement system, the school employees' retirement system, and the public employees' retirement system to begin receiving benefits without leaving service at age seventy and one-half; adding a new section to chapter 41.32 RCW; adding a new section to chapter 41.35 RCW; and adding a new section to chapter 41.40 RCW.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.32 RCW under the subchapter heading "provisions applicable to plan 1, plan 2, and plan 3" to read as follows:

Upon attainment of age seventy and one-half, an employed member may, subject to this section, apply for the retirement benefit the member is otherwise eligible to receive and remain employed without reduction in their pension. The retirement benefit begins to accrue on the first day of the calendar month following the month that a member applies for a retirement benefit and has attained age seventy and one-half. The benefit shall be calculated in accordance with the rules of the member's plan, except that the member may continue to be employed.

Upon retirement, the retiree is no longer an active member and may not make contributions, nor receive service credit, for future periods of employment while receiving his or her retirement allowance.

This section does not apply to any member who is a state elected official on the effective date of this act, unless that member leaves elected office or is reappointed or reelected after the effective date of this act.

NEW SECTION. **Sec. 2.** A new section is added to chapter 41.35 RCW under the subchapter heading "provisions applicable to plan 2 and plan 3" to read as follows:

Upon attainment of age seventy and one-half, an employed member may, subject to this section, apply for the retirement benefit the member is otherwise eligible to receive and remain employed without reduction in their pension. The retirement benefit begins to accrue on the first day of the calendar month following the month that a member applies for a retirement benefit and has attained age seventy and one-half. The benefit is calculated in accordance with the rules of the member's plan, except that the member may continue to be employed. Upon retirement, the retiree is no longer an active member and may not make contributions, nor receive service credit, for future periods of employment while receiving his or her retirement allowance.

This section does not apply to any member who is a state elected official on the effective date of this act, unless that member leaves elected office or is reappointed or reelected after the effective date of this act.

NEW SECTION. **Sec. 3.** A new section is added to chapter 41.40 RCW under the subchapter heading "provisions applicable to plan 1, plan 2, and plan 3" to read as follows:

Upon attainment of age seventy and one-half, an employed member may, subject to this section, apply for the retirement benefit the member is otherwise eligible to receive and remain employed without reduction in their pension. The retirement benefit begins to accrue on the first day of the calendar month following the month that a member applies for a retirement benefit and has attained age seventy and one-half. The benefit shall be calculated in accordance with the rules of the member's plan, except that the member may continue to be employed.

Upon retirement, the retiree is no longer an active member and may not make contributions, nor receive service credit, for future periods of employment while receiving his or her retirement allowance.

This section does not apply to any member who is a state elected official on the effective date of this act, unless that member leaves elected office or is reappointed or reelected after the effective date of this act.

--- END ---

Background

SHB 2180 created an early retirement window between September 1, 2003 and February 20, 2004. Public Employees' Retirement System (PERS) plan 1 members retiring during the window could elect to withdraw their employee contributions in a lump sum and receive a reduced monthly benefit. PERS plans 2/3 and State Employees' Retirement System (SERS) plans 2/3 members retiring during the window with 60 years of age and at least 5 years of service could retire with a 3% per year reduction in their benefit. All PERS and SERS members retiring during the window would receive an additional $10 per month per year of service for the first 24 months of retirement.

PERS and SERS members who retire under this bill and return to work with a PERS or SERS employer would have their retirement allowance reduced 5.5% for each 8 hours worked per month for a maximum reduction of 100%.

Committee Activity

Presentation:
December 16, 2003 – Full Committee Meeting

Recommendation to Legislature

None

Staff Contact

Laura Harper – 360-586-7616 – harper_la@leg.wa.gov

Early Retirement (SHB 2180, 03 Session)

(December 10, 2003)

Issue

SHB 2180 from the 2003 Legislative Session would have allowed PERS 1 members retiring between September 1, 2003 and February 29, 2004, to elect to withdraw their employee contributions in a lump-sum and receive a reduced monthly benefit. Members of PERS 2/3 and SERS 2/3 who were at least 60 years of age and had at least 5 years of service could have retired during the window with a 3% per year reduction in their benefit. All PERS and SERS members retiring during the window would have received an additional $10 per month per year of service for the first 24 months of retirement.

PERS and SERS members who retire under this bill and return to work with a PERS or SERS employer would have their retirement allowance reduced 5.5% for each 8 hours worked per month for a maximum reduction of 100%.

Staff

Laura Harper (360) 586-7616

Members Impacted

About 10,100 active PERS 1 members would have been affected by SHB 2180. Of this total, about 1,300 members were 65 years of age or older and about 8,800 were under the age of 65. The bill required that PERS 1 members be eligible to retire to benefit under the bill.

Approximately 8,800 PERS 2/3 members would would have been affected by this bill. Of this total, about 2,300 members were 65 years of age or older; 1,700 were between the ages of 60 and 64 and had 20 years of service or more; and another 4,800 members were between the ages of 60 and 64 and had less than 20 years service (but more than 5 years of service). The bill required that PERS 2/3 members be at least age 60 with at least 5 years of service to benefit under the bill.

Approximately 3,900 SERS 2/3 members would have been affected by this bill. Of this total, about 1,100 members were 65 years of age or older; 600 were between the ages of 60 and 64 with 20 years of service or more; and another 2,200 members were between the ages of 60 and 64 and had less than 20 years service (but more than 5 years of service). The bill required that SERS 2/3 members be at least age 60 with at least 5 years of service to benefit under the bill.

Current Situation

Currently, PERS 1 members may retire with an unreduced benefit at age 60 with 5 years of service, at age 55 with 25 years of service, or at any age with 30 years of service.

Members of PERS 2 and SERS 2 may retire with an unreduced benefit at age 65 with 5 years of service. They are also eligible for a reduced benefit at age 55 if they have at least 20 years of service. PERS 2 and SERS 2 members who retire at age 55 with at least 30 years of service receive a 3% reduction for each year that their retirement age precedes age 65. Members who retire with at least 20 years of service, but less than 30 years of service, receive a larger actuarial reduction for early commencement of their benefit.

PERS 3 and SERS 3 members may receive the defined benefit portion of their retirement allowance at age 65 with 10 years of service, at age 65 with 5 years of service if 12 months of that service was earned after age 54, or at age 65 with 5 years service if that service was earned in Plan 2. They may also receive a benefit at age 55 with 30 years of service with the benefit reduced 3% per year for each year that their retirement age precedes age 65. They may also receive a benefit at age 55 with 10 years of service with the benefit actuarially reduced for each year that their retirement age precedes age 65.

History

Originally HB 2180 provided the early retirement window described above for PERS Plans 1, 2, and 3 only. SHB 2180, a substitute bill, provided the early retirement window for SERS Plans 2 and 3 as well as the PERS Plans included in the original bill. The bill did not pass in the House.

Policy Analysis

Early retirement windows are often touted as a means to achieve fiscal savings by reducing payroll costs. While some temporary salary savings may be realized, they seldom compare favorably with the resulting increased liabilities to the retirement system.

Also, an issue paper entitled "Early Retirement Windows" is attached. For an in-depth policy discussion of early retirement windows, see pages 7-15 of the issue paper.

Options

Only one option is presented to the Committee at this time.

Fiscal Impact of Options

SHB 2180 provided that the PERS 2 and SERS 2 employee contribution rate would not be impacted by the legislation. See the attached fiscal note which details the employer impact.

Administrative Impact (DRS)

Input requested.

Executive Committee Recommendation

The Executive Committee has forwarded this item to be heard by the full Committee.

Bill Draft

SHB 2180 from the 2003 sessions is attached.

Fiscal Note

See attachment.

Early Retirement Windows

Joint Committee on Pension Policy
Presented May 21, 1998

Prepared by:

Christine Masters Ryser
Research Analyst

Situation Summary:

The issue of early retirement continues to be a topic of interest for legislators, governmental agencies and individual members. This report updates information contained in the 1996 early retirement report and presents policy issues related to targeted early retirement windows.

Background:

Early Retirement Windows and Retirement Incentives:

Normal retirement is what occurs after a member has fulfilled the requirements for receiving an unreduced benefit from their retirement system. Eligibility for normal retirement in the Washington retirement systems varies among the systems and Plans.

Members of the Public Employees' Retirement System Plan 1 (PERS 1 and the Teachers' Retirement System Plan 1 (TRS 1) can qualify for an unreduced benefit by meeting one of three combinations of age and/or service. Washington State Patrol (WSP) members must meet one of two combinations of age and/or service. Members of the Law Enforcement Officers' Retirement System Plan 1 (LEOFF 1) must earn at least five years of service and reach a specific age. These same requirements apply to members of the Plan 2 and Plan 3 systems.

In addition to normal retirement, the Plan 2 systems provide members with an on-going opportunity to retire early. The benefit provided by this option is actuarially reduced to reflect the additional years the member will receive payments. **Table #1** provides the eligibility requirements for each of the major Washington retirement systems.

TABLE #1
Washington Retirement Systems' Retirement Criteria

System	Plan 1	Plan 2	Plan 3
LEOFF	Age 50/5 YOS	Age 55/5 YOS *Age 50/20 YOS	NA
PERS	Age 60/ 5 YOS Age 55/25 YOS Any Age/30 YOS	Age 65/5 YOS *Age 55/20 YOS	NA
TRS	Age 60/5 YOS Age 55/25 YOS Any Age/30 YOS	Age 65/5 YOS *Age 55/20 YOS	Age 65/5 YOS *Age 55/10 YOS
WSP	Any Age/25 YOS Age 55/5 YOS		

*** Benefit reduced from age 65.**

For purposes of this report, early retirement is discussed in terms of a temporary opportunity (window) allowing certain members to leave employment before normal retirement and begin receiving an unreduced benefit immediately. Early retirement is **not** considered in the context of:

- Lowering the normal retirement age; or
- A permanent option allowing members to retire earlier with a reduced benefit. (As exists in the Plan 2 retirement systems.)

There are two types of early retirement windows (ER windows) "blanket" and "targeted". Blanket programs provide early retirement to a large segment of the membership. Usually blanket windows are offered to all members of a retirement system who meet certain age and service requirements. Targeted windows are programs offered to a much smaller group of members, for instance, the employees of a particular agency or facility.

The primary difference in the two types of windows is the scope of the offering. Both blanket and targeted windows are designed to achieve the same end: the voluntary termination of members close to retirement.

In the past, Washington has provided six programs to stimulate retirement among members. While the goals of these programs have varied, all have targeted members of the Public Employees' Retirement System Plan 1 (PERS 1) and/or Teachers Retirement System Plan 1 (TRS 1).

In addition to ER windows, Washington has also employed incentives to encourage members to leave service. As used in the past, incentives are cash payments or increases in salary offered to members already eligible to retire in exchange for the member's agreement to leave service within a certain time period. In other states, incentives have been combined with early retirement to increase the attractiveness of a program. A common combination is to allow members to retire a few years early and credit them with one additional year of service for every X number of years of service already earned.

History of Incentives and Early Retirement Programs:

Incentives and retirement programs offered in the past have been driven by personnel concerns. The goals of these programs can be divided into three categories:

- Easing adverse impacts on members employed by an abolished agency.
- Encouraging members close to, or already eligible for retirement, to do so.
- Reducing FTE's and compensation costs.

Table #2 is a summary of the six programs. A more complete description is contained in **Appendix B**.

TABLE #2

Incentives and Early Retirement Windows Offered in Washington State

Year	Program
1973	**Northern State Hospital** When the state decided to close Eastern Washington Hospital, Chapter 43.130 was enacted to provide affected personnel with three options: * Relocate to other state employment; * Receive termination pay; or * Members age 55 with five years of service could retire without actuarial reduction in the benefit amount. Members age 45 with 5 years of service could retire with a benefit actuarially reduced from age 55.
1982	**Plan 1 Early Retirement Window** Revenue shortfalls prompted the Legislature to allow PERS 1 and TRS 1 members to retire up to five years early without an actuarial reduction in benefits. Active members within five years of normal retirement eligibility were targeted. Legislation did not include any restrictions on retirees returning to work.
1992	**Community College/K-12 Retirement Incentives** TRS 1 members within two years of retirement eligibility were offered additional teaching hours with increased salary if they agreed to waive their rights to tenure at the end of the two years. The increased work hours and salary served to boost the members average final compensation and retirement benefit. The Department of Retirement Systems has since notified employers that such incentives are not reportable as compensation.
1992/ 1993	**Plan 1 Early Retirement Windows** Educational reform and government streamlining prompted the Legislature to offer PERS 1 and TRS 1 members the opportunity to retire up to five years early without an actuarial reduction in benefits. Eligibility requirements were the same as for the 1982 window. Legislation included restrictions on retirees returning to work.
1995	**Department of Transportation Retirement Incentive** Certain PERS 1 DOT employees past retirement eligibility were offered cash incentives to terminate employment. Incentive amounts were based on the member's years of service.

Retirement Benefit Policies:

In 1993 the Joint Committee on Pension Policy (JCPP) adopted a set of retirement benefit policies. As a whole, these policies were designed to develop long-term strategies for pension benefits that would best meet the needs of employees, retirees and employers within available resources. These policies do not focus directly to ER windows, but they do establish a framework for considering early retirement issues.

Three policies inherent in the Plan 2 systems were identified for continuation:

- ✦ All state and local employees should have essentially the same retirement plans;
- ✦ Retiree benefits should have some form and degree of protection from inflation'
- ✦ Costs should be shared equally between employees and employers.

New Plans, or changes to current plans should be based on the following additional policies:

- ✦ Sufficient income after leaving the workforce should be from a combination of Social Security, retirement benefits and employee savings.
- ✦ Employees must take responsibility for insuring they have a sufficient income after retirement.
- ✦ Retirement benefits are intended to provide income after leaving the workforce.
- ✦ Employees who vest and leave should be provided reasonable value toward their ultimate retirement for their length of service.
- ✦ Retirees should have more flexibility in determining the form and timing of their benefit.
- ✦ Plan design should be as neutral as possible in its affect on employees:

  - ✧ It should not inhibit employees from changing careers or employers.
  - ✧ Employees should not be encouraged to stay in jobs they consider highly stressful.
  - ✧ Employees should not be encouraged to seek early retirement.

- ✦ Any new retirement plan shall not exceed the Plan 2 cost.

Benefit Funding:

Retirement benefits are funded by contributions from employees and their employers. In the case of the LEOFF systems, the state also pays a portion of benefit costs. Contribution rates are fixed in statute for Plan 1 and WSP members; and for LEOFF 1 employers. PERS 1 and TRS 1 employers and the state contribute at a rate calculated to properly fund the systems. Since their rates are based on statute and not cost, Plan 1 and WSP members do not pay for increases in benefits. Employers and the state must pay any additional costs.

PERS and TRS Plan 2 members and employers each contribute one half of the total cost of benefits. In LEOFF 2, the state pays 40% of the cost and the remainder is split between members and employers. In this funding approach, members pay one half the cost of benefit increases.

TRS 3 members do not contribute to their defined benefits. Only their employers contribute. Thus, any increases in benefits are paid for by the employer.

TABLE #3

Contribution Rates Charged as of 9/1/97

	PERS		TRS			LEOFF		WSP
	Plan 1	Plan 2	Plan 1	Plan 2	Plan 3	Plan 1	Plan 2	
Employee	6.00%	4.65%	6.00%	6.03%	NA	6.00%	8.48%	7.00%
Employer	7.32%	7.32%	11.75%	11.75%	11.75%	6.00%	5.09%	11.05%
State						9.21%	9.21%	

Cost-of-living Adjustments:

When members leave the workforce early, they are expected to spend more years in retirement. The longer a member receives a retirement benefit, the more important cost-of-living adjustments to that benefit become.

Automatic annual cost-of-living adjustments (COLAs) are provided retirees in all of the Washington retirement systems. The Plan 2 and 3 systems all receive the same type of adjustments. The PERS and TRS Plan 1 systems receive adjustments through an annual increase call "the Uniform COLA". LEOFF 1 and WSP retirees each receive increases based on a separate mechanism.

TABLE #4

Washington Retirement Systems
Overview of Cost-of-living Adjustment Designs

Plan	COLA Design	When Received
PERS 1/ TRS 1	Automatic annual increases. Increase is a flat-rate amount per year of service. It is increased by 3% each year.	Member has reached age-66 and been retired for one year.
LEOFF 1	Automatic annual adjustment Increase is equal to advances in the Seattle Consumer Price Index.	Member has been retired one year.
All Plans 2/ TRS 3	Automatic adjustment matches advances in the Seattle Consumer Price Index, up to 3% a year.	Member has been retired one year.
WSP	Automatic annual adjustment of 2% of benefit.	Member has been retired one year.

Policy Issues:

1. **Early Retirement Windows are a Personnel Tool:** Employers promoting early retirement stress its usefulness as a method for reducing personnel. Employed in this manner early retirement becomes a matter of personnel policy, not retirement policy.

2. **Are Early Retirement Windows an Employee Benefit?** Employees have expressed an interest in leaving public service at a younger age with a retirement allowance. A number of factors outside the pension system directly impact members' ability to maintain their standard of living once they leave the workforce.

3. **The Effect of Early Retirement Windows on the Normal Retirement Age Policy:** Current eligibility for normal retirement is age-65. Allowing early retirement undermines this policy.

4. **Compensation Savings vs. Increases in the Retirement System Costs:** Claims of fiscal savings are often made when early retirement is proposed. While some savings may be realized in compensation costs, early retirement increases liabilities to the retirement system.

5. **Plan 2 Considerations:** Until now all early retirement efforts have been aimed at Plan 1 members. In the future, Plan 2 members will be targeted. Differences in the way benefits in the Plan 1 and Plan 2 systems are funded have significant implications for early retirement windows.

Analysis:

1. Early Retirement as a Personnel Tool:

Temporary early retirement windows and incentives are not prompted by retirement issues. They are tools to address personnel problems. Three common uses are:

- ✦ **When a facility is closed or staff size is greatly reduced.** In loyalty to employees close to retirement, an employer may offer an early retirement program.

- ✦ **To alter the mix of high and low seniority employees who are terminated during a lay-off.** When senior employees retire, it may allow the employer to reduce cut-backs among shorter-term employees.

- **To foster innovation.** Shorter-term employees may be more open to new employer initiatives Encouraging retirement of longer-term employees may prune "dead wood".

None of these uses stem from retirement issues. In fact, they may be counter-productive to retirement polices adopted by the JCPP in 1992. In employing ER windows, the employer must judge the benefits gained from employees leaving the workforce against the pressure it places on retirement benefit goals.

ER programs also have the potential to create personnel problems. Employers have a limited control over who takes advantage of an ER opportunity. The employer can set requirements for eligibility, but it is the individual employee's decision whether to take advantage of the offer. Difficulties arise when a greater or lesser number of employees may decide to retire than anticipated further impacting staffing levels. A second danger of such programs is that critical employees may choose to retire, disrupting the provision of services or the completion of projects. Short time periods for taking advantage of a window further excerbate this problem.

2. Early Retirement as an Employee Benefit:

There are employers who view ER windows as a periodic supplemental benefit. They see early retirement not only as a means to aid themselves, but also provide older employees with a special opportunity to leave service earlier. While this view may be well intentioned, earlier retirement it not always be to the long-term benefit of employees.

Workers who retire early face the challenge of maintaining their standard of living over a longer period of time than retirees who leave at normal retirement. In some cases, this may not be an issue. ER windows can be a boon to employees who:

- Wish to pursue a second career, while receiving income from their first career.
- Are affected by health disabilities.
- Have planned to leave the workforce before eligibility and are financially secure.
- Have access to affordable health care insurance.

PERS 1 members are especially likely to benefit from ER windows. There are no provisions to allow early retirement with a reduced benefit in the Plan 1 systems. In PERS 1, terminated-vested members (those with at least 5 years of service who leave service without withdrawing their contributions), are not eligible to begin drawing an unreduced retirement benefit until age 65. Benefits can be paid at age 60, but are actuarially reduced from age 65. The effect of these provisions is that members who do not continue working until retirement eligibility must either wait to receive their benefits or accept a reduced amount.

This delay in terminated-vested benefits does not occur in other Washington retirement systems. TRS 1 terminated-vested members, and members of the Plan 2 and Plan 3 tiers, can begin receiving unreduced benefits when they reach eligibility for normal retirement.

Employers may view an ER window as a good solution to a personnel problem, and employees see them as a short cut to the "golden years", but four factors require consideration.

The reduced size of the retirement benefit:

Early retirees receive a smaller retirement allowance than they would have if they worked until normal retirement age. An early retiree permanently forgoes additional service credit, as well as potential future salary increases, in lieu of early receipt of the retirement allowance.

Inflation:

In Plan 1, cost-of-living adjustments (COLAs) do not begin until the retiree has reached age-66. In previous ER windows offered by the state, retirees could be as young as age 50. This means some benefit purchasing power will be lost to inflation before the retiree becomes eligible for an annual increase. The amount of the loss could be a little or a lot depending on the rate of inflation and the retiree's age.

Fixed benefits and loss of purchasing power bring discontent. The bulk of persons who sought COLAs in the late 1980s and early 1990s were those whose benefits had been eroded by inflation.

Eligibility for Social Security:

First eligibility for Social Security now occurs at age 62. This "early retirement" benefit is roughly 80% of the amount a worker would receive at age 65. A public employee who leaves employment early will not be eligible for Social Security for even this reduced benefit for several years. In addition, individuals who do not work up until eligibility are likely to receive a lower benefit.

The age at which the full Social Security benefit is obtained is increasing. **Appendix C** shows how the increase in full benefit eligibility is being implemented. The reduction for retirement at age-62, from Social Security is also rising. The person who retires now at age 62 receives a benefit approximately 20% less than the full retirement benefit. For the person who is age 62 in the year 2022, the benefit will be approximately 30% less than the full retirement benefit.

The cost of health care insurance:

At age-65 retirees become eligible for Medicare. Typically the cost of health care insurance is reduced at this age to reflect coverage under the federal program. **Appendix D** reflects data from the Washington State Health Care Authority rate schedule, effective January 1, 1998. It shows the monthly premium rates for the pre-age 65 retiree only; and the retiree and spouse. The cost of these premiums range from $143 to $179 a month for the retiree only; and from $262 to $354 for the retiree and spouse.

3. The Effect of Early Retirement on Normal Retirement Age Policy:

A fundamental impact of early retirement programs is the pressure it exerts on normal retirement age policy. The Legislature established that full retirement benefits will not to be paid until the member attains age-65. This policy was established in the creation of PERS 2 and TRS 2. It was reinforced in the creation of TRS 3 and SERS 3.

Early retirement is a limited benefit. Only members who meet the eligibility criteria benefit from it, others gain nothing. Members not eligible for one window will create pressure for another. Adding to this, is the fact that the state has offered three large-scale early retirement windows since 1982. The frequency of these past programs has built an expectation of future programs.

At some point, the expectation and frequency of future ER windows undermines normal retirement policy. Where that line falls may be difficult to determine, except in retrospect. At that point, it may be difficult to reverse the trend.

4. Fiscal Impacts and Policy:

A common justification for early retirement is that it saves the employer money by reducing payroll costs. If salary savings do occur, they seldom compare favorably to the increased costs to the retirement systems. The fiscal impact of ER windows is to temporarily lower payroll costs, while increasing retirement system liabilities. Agencies also experience impacts from unbudgeted cash-outs of unused employee leave.

Compensation Savings:

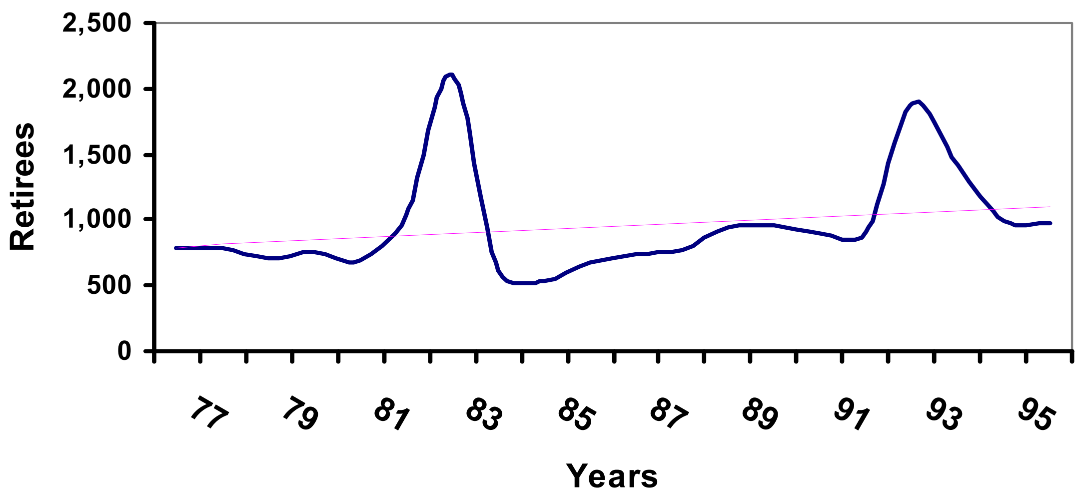
The "compensation savings" theory of ER windows is relatively straightforward. Windows encourage senior employees, who are earning relatively high salaries, to leave employment. These employees are then replaced by employees earning lower salaries. The difference between the senior employee's salary and the replacement's salary constitutes a savings for the employer.

The replacement of personnel that occurs as a result of ER windows is the same one that occurs when an individual reaches normal retirement. The only difference between early and normal retirement is timing. With an ER window, a large group of employees may leave at one time. Any savings that are realized in a window are simply realized all at once instead of over a period of time. Nothing happens in an ER window that would not have happened within the next few years as workers become eligible for normal retirement.

Figure #1 shows TRS 1 retirements from 1977 through 1995 and a retirement trend line. There are peaks when an ER window is offered and in subsequent years, subnormal retirements occur. The ER window has "borrowed" retirees from the next five years, when those employees would have reached eligibility under normal retirement rules.

FIGURE #1

TRS 1 Annual Retirements 1977-1996



Though easy to understand in theory, the cost savings of ER windows are difficult to demonstrate in practice. A number of factors complicate this calculation.

- **Replacement salaries** In theory, an ER window replaces a high-paid employee, with a low-paid one. In practice, it is usually an employee who is already close in pay to the retiree who moves into that position. This sets off a series of promotions within the agency and eventually an entry-level employee is hired. To calculate the "savings" does the analyst use the salary of the new hire, or the worker who actually replaced the retiree?
- **Rate of replacement** Real salary savings occur only if the retiree is not replaced. This rarely happens except in situations where a facility closes or agency is abolished. Assumptions about the length of time a retiree's position will go unfilled impact the estimation of compensation savings.

✦ **Training costs** Replacement employees may need additional training to perform their new responsibilities. Should these costs be included in the savings calculation?

The only salary data available regarding Washington's ER windows comes from the 1992 program. The Office of Financial Management (OFM) had agencies report their savings after the retirement of their employees. OFM estimated the state saved approximately $1 million in salary savings from PERS 1 early retirees and approximately $8.6 million from TRS 1.

The Office of the State Actuary (OSA) also conducted a study of the 1992 early retirement window. From the data it received, it was estimated that from $90,000 to $400,000 was saved in salaries as a result of PERS 1 retirees and between $7.2 million and $16.8 million was saved as a result of TRS 1 retirees. The variability of results from the two studies underscores the difficulty of calculating savings.

Whatever savings may be attributed to an ER window, they are only effective in the current fiscal period. Economies in government are not accumulated from one budget cycle to the next.

Actuarial Impacts:

Except in LEOFF 1, service retirement is the most expensive element of the state's retirement system. Early retirement increases this cost by providing additional years in retirement, while shortening the funding period. **Tables #5 and #6** provide a relative breakdown of benefit costs without an ER window.

TABLE #5

Distribution of Plan 1 Retirement Costs

Benefit	PERS 1	TRS 1	LEOFF 1
Service Retirement	86.1%	90.2%	26.8%
Disability	2.2%	1.3%	67.2%
Death	1.1%	0.6%	3.2%
Withdrawal	10.6%	7.9%	2.9%
Total	100.0%	100.0%	100.0%

TABLE #6

Distribution of Plan 2 Retirement Costs

Benefit	PERS 2	TRS 2	LEOFF 2
Service Retirement	84.4%	89.9%	94.2%
Disability	1.8%	0.7%	0.6%
Death	1.2%	0.5%	0.4%
Withdrawal	12.7%	8.9%	4.8%
Total	100.0%	100.0%	100.0%

Table #7 shows employer costs for the early retirement programs of 1982, 1992 and 1993. The amounts shown are for the first biennial period only. They are represented in 1996 dollars. Increases in contributions rates to fund these programs are applied to all earnable compensation and will be paid by all employers through June 30, 2024.

TABLE #7

Actuarial Costs for Early Retirement Programs in 1982, 1992 and 1993

($ in Millions)

		2-Year Cost		25-Year Cost		
	Number of Retirees	**General Fund-State**	**All Funds**	**General Fund-State**	**All Funds**	**Unfunded Accrued Actuarial Liability**
1982						
PERS 1	1,416	$ 1.1	$ 4.1	$ 28	$ 107	$ 36.7
TRS 1	1,023	3.4	4.2	84	104	40.5
1992						
PERS 1	1,198	0.7	2.7	19	73	31.0
TRS 1	818	2.9	3.6	72	89	32.3
1993						
PERS 1	867	0.7	2.7	19	73	22.4
TRS 1	410	1.4	1.7	36	45	16.2

As a matter of comparison, salary data collected by OFM and OSA estimated compensation savings for the 1992 ER program between $8 and $17.2 million for PERS 1 and TRS 1 combined. The present value of the unfunded liability incurred by the 1992 ER window was $63.3 million.

Terminal pay and cash-outs:

When employees retire, they are often eligible to receive cash payments for unused annual leave, sick leave and other benefits. Some of these payments can be quite large. When an ER window is offered, a large group of employees may leave an agency within a short time. The cost of unanticipated cash-outs can be disruptive to an agency and may put its programs into jeopardy in the short run.

5. Plan 2 Considerations:

To date, ER windows have only targeted members of the PERS and TRS Plan 1 systems. These plans have been closed to new members for 22 years. The bulk of Washington's public employees now belong to Plans 2 and 3. If employers are going to continue to use ER windows to manage their workforces, they will have to begin offering them to Plan 2 and 3 members. Key differences in these tiers' benefit structures introduce additional policy issues.

Funding:

In the Plan 1 tiers, members pay a fixed contribution rate. In the Plan 3 tiers, the member does not contribute to the defined benefit portion of the retirement benefits. In both Plans, any increases in benefits, such as an ER window, would be paid for with an increase in employer contributions.

The Plan 2 tiers present a different situation. Benefit costs are split evenly between the employer and the employee. When the cost of benefits increase, both are required to contribute more. If an ER window is offered in Plan 2, both employers and employees will see contributions rise. Non-eligible members would be expected to pay for the program even though they cannot benefit from it.

Retirement Age:

Plan 1 members have three options for meeting retirement eligibility:

- ✦ Age 60 with 5 years of service;
- ✦ Age 55 with 25 years of service; or
- ✦ Any age with 30 years of service.

These age and service options produce retirees at a range of ages roughly from 49 to 60 years. When ER windows are targeted as they have been, by reducing eligibility 5 years, they produce retirees who range in age from 45 to 55.

In contrast to the Plan 1 tiers, eligibility for normal retirement in Plan 2 is age-65. Lowering eligibility 5 years brings that number to age 60. An ER window of this design only affects older members. A program aimed at this population may be viewed as age-discriminatory.

Reduction Factors for the On-going Early Retirement Benefit:

Plan 2 members have a permanent option to retire with a reduced benefit at age 55 with 25 years of service. (See **Table #1**.) An ER window targeted to Plan 2 members will have to determine an equitable policy for members who wish to retire under this eligibility during the ER window. If a window is designed as the Plan 1 windows have been, Plan 2 members could retire at age-60 with 5 years of service:

- ✦ Does this mean that members who are age 50 with 15 years of service qualify for the on-going reduced early retirement benefit during the open window?
- ✦ Do members who meet the age-60 requirement see their benefit reduced from age 60, rather than the normal retirement age of 65?
- ✦ Should the members who are retirement eligible under the on-going early retirement option receive any incentives to retire during a ER window ?

Policy Questions:

There are several policy questions that might be considered with regard to early retirement programs. Two general areas to consider are: the early retirement program itself and responsibility for funding the program.

Early Retirement Program Design:

- ✦ Should early retirement continue to be used as an ad hoc supplemental retirement benefit?
- ✦ Should the Joint Committee adopt a set of guidelines to be used if future early retirement programs are offered?
- ✦ Should early retirement be established as a permanent program to be initiated by the employer?
- ✦ Should early retirement be targeted to identified employee categories?

Early Retirement Program Funding:

- ✦ Should payment continue to be made by all employers or only by those employers affected by early retirement?
- ✦ Should payment of the costs of early retirement be amortized or paid immediately?

Appendix A

Washington State Retirement Systems
Membership by Age and Years of Service

PERS 1 Membership by Age and Years of Service 1996 Valuation Data

Years of Service	49 or Less	50-54	55-59	60-64	65 or Older	Total
0 - 4	1,215	499	271	88	38	2,111
5 - 9	1,791	843	420	204	59	3,317
10 - 14	1,869	999	566	262	66	3,762
15 - 19	2,168	1,184	868	412	101	4,733
20 - 24	5,748	3,413	2,333	1,163	277	12,934
25 - 29	1,469	2,433	1,262	709	191	6,064
30 or More	41	389	476	278	105	1,289
Total	14,301	9,760	6,196	3,116	837	34,210

PERS 2 Membership by Age and Years of Service 1996 Valuation Data

Years of Service	49 or Less	50-54	55-59	60-64	65 or Older	Total
0 - 4	51,743	4,577	1,990	994	466	59,770
5 - 9	37,823	6,097	2,939	1,442	550	48,851
10 - 14	16,770	4,355	2,573	1,293	385	25,376
15 - 19	8,240	2,747	1,916	1,184	300	14,387
20 - 24	2	6	4	2	1	15
25 - 29	0	1	0	0	0	1
30 or More	0	0	0	0	0	0
Total	114,578	17,783	9,422	4,915	1,702	148,400

* Boxed areas indicate eligibility for normal retirement.

TRS 1 Membership by Age and Years of Service
1996 Valuation Data

Years of Service	49 or Less	50-54	55-59	60-64	65 or Older	Total
0 - 4	319	188	59	13	2	581
5 - 9	617	498	150	42	14	1,321
10 - 14	878	653	225	50	11	1,817
15 - 19	2,087	783	402	118	20	3,410
20 - 24	4,336	1,811	769	283	45	7,244
25 - 29	1,418	3,219	1,164	368	81	6,250
30 or More	2	700	891	415	85	2,093
Total	9,657	7,852	3,660	1,289	258	22,716

TRS 2 Membership by Age and Years of Service
1996 Valuation Data

Years of Service	49 or Less	50-54	55-59	60-64	65 or Older	Total
0 - 4	12,652	804	257	66	17	13,796
5 - 9	10,626	1,142	380	122	23	12,293
10 - 14	5,228	813	385	115	19	6,560
15 - 19	3,017	580	304	130	29	4,060
20 - 24	0	0	0	0	0	0
25 - 29	0	0	0	0	0	0
30 or More	0	0	0	0	0	0
Total	31,523	3,339	1,326	433	88	36,709

* **Boxed areas indicate eligibility for normal retirement.**

LEOFF 1 Membership by Age and Years of Service
1996 Valuation Data

Years of Service	49 or Less	50-54	55-59	60-64	65 or Older	Total
0 - 4	2	0	1	0	0	3
5 - 9	6	0	0	0	0	6
10 - 14	6	4	1	0	0	11
15 - 19	143	16	0	0	0	159
20 - 24	960	270	28	1	0	1,259
25 - 29	258	593	129	13	0	993
30 or More	1	74	59	26	2	162
Total	1,376	957	218	40	2	2,593

LEOFF 2 Membership by Age and Years of Service
1996 Valuation Data

Years of Service	49 or Less	50-54	55-59	60-64	65 or Older	Total
0 - 4	3,306	50	20	3	0	3,379
5 - 9	3,275	62	17	9	1	3,364
10 - 14	1,961	86	34	7	0	2,088
15 - 19	1,842	124	20	7	1	1,994
20 - 24	2	0	0	0	0	2
25 - 29	0	0	0	0	0	0
30 or More	0	0	0	0	0	0
Total	10,386	322	91	26	2	10,827

* **Boxed areas indicate eligibility for normal retirement.**

WSP Membership by Age and Years of Service
1996 Valuation Data

Years of Service	49 or Less	50-54	55-59	60-64	65 or Older	Total
0 - 4	94	0	0	0	0	94
5 - 9	294	2	0	0	0	296
10 - 14	174	1	0	0	0	175
15 - 19	110	3	1	0	0	114
20 - 24	97	16	0	0	0	113
25 - 29	50	48	6	0	0	104
30 or More	0	10	11	0	0	21
Total	819	80	18	0	0	917

* **Boxed areas indicate eligibility for normal retirement.**

Appendix B

Prior Retirement Incentives and Windows

1973 - Northern State Hospital:

In 1973, the Department of Social and Health Services determined Northern State Hospital was no longer needed as an institution for the mentally ill. As a consequence, the decision was made to permanently close the facility.

Chapter 43.130 RCW was enacted to address this situation and remains in effect today. Under these provisions, qualified personnel of an affected institution are given three options:

- Relocate to other state employment;
- Receive payment of termination pay; or
- If an affected employee has attained age 55 and completed at least 5 years of service, receive a retirement allowance without actuarial reduction. If, an affected employee is age 45 with at least 5 years of service, he or she could retire with an actuarially reduced benefit.

The allowance offered under this Chapter is limited. No allowance can be received in a year following a year in which the retiree earned more than $6,000. The $6,000 amount is annually adjusted by any COLA received by PERS retirees, beginning in 1973. (Factually, this is an impossible task, given the nature of COLAs provided from 1973 through the present.)

Community College/K-12 Retirement Incentive Programs:

In June of 1992, the JCPP learned of several retirement incentive programs in operation within the community college districts. A TRS 1 member who was eligible to retire within two years could sign an agreement to retire in two years and waive their rights of tenure at the end of that period. In consideration for this agreement, the member would receive summer session contracts for a class load 50 percent greater than the standard summer load with compensation 72 percent greater than standard compensation.

Certain school districts were also providing retirement incentives. In these instances, the teachers were being given additional teaching days if they agreed to retire within a certain period of time

In both cases, not only were the faculty member and teacher receiving increased compensation, they were also enhancing their average final compensation (AFC), which in turn increased their retirement benefit. DRS later issued a notice to community college and K-12 districts informing them this type of practice was not condoned and such incentives were not reportable as compensation.

Department of Transportation Retirement Incentive Program:

In 1995, the Department of Transportation was experiencing personnel and morale problems in one of its regional offices. Part of the problem was caused by the continued longevity of professional engineering employees. These individuals were not retiring as anticipated and the agency's promotional patterns were being stymied. In addition, budgetary cutbacks were expected.

DOT successfully proposed an incentive program to the Governor and the Legislature. The legislation allowed DOT to offer a $500 cash bonus for each year of service to certain employees if they agreed to retire. The incentive program was initiated in 1996 for PERS 1 employees of DOT's Southwest Region who were already eligible to retire. Twenty-three employees were eligible for the bonus. Thirteen accepted it. The enabling legislation for this incentive expired in 1997.

1982 Early Retirement Window:

In 1982, the state was experiencing fiscal problems. With declining revenues, the Legislature faced the prospect of reductions in programs and FTEs. To minimize the impact of personnel reductions and realize short-term salary savings, an early retirement program was offered to PERS and TRS Plan 1 members.

In **Table #1**, the qualifications for normal retirement are compared with the qualifications for the early retirement window. (The term *normal retirement* means the receipt of the retirement allowance without reduction.)

TABLE #1
Eligibility for 1982 Early Retirement
PERS 1 and TRS 1

Normal Retirement	Early Retirement
Age 60 with 5 years of service	Age 55 with 5 years of service
Age 55 with 25 years of service	Age 50 with 20 years of service
30 years of service	25 years of service

Normal retirement qualifications were simply reduced by five years. **Table #2** provides some statistics for the 1982 program.

TABLE #2
1982 Early Retirement Statistics

	PERS 1	TRS 1
Number of Retirees	1,938	1,023
Average Age	56.2	53.8
Average Service	18.3	22.6
Years to Normal Retirement	2.3	2.2
Percent of Those Eligible to Utilize Early Retirement	22%	29%

There was an additional element connected with the 1982 early retirement program which may have effected participation rates. The Legislature had just adopted language which prospectively eliminated any cash-out of unused leave, for PERS 1 members. The elimination of this benefit would have prevented PERS 1 members from applying a portion of their cash-out to their average final compensation (AFC) and retirement benefit. The language to eliminate cash-outs was later declared unconstitutional. Nonetheless, a large number of members may have taken advantage of early retirement to ensure they would be able to use their cash-outs in calculating their AFC.

In terms of saving money, the 1982 early retirement program contained one flaw. It did not prohibit early retirees from contracting with their employers to do the same job they were doing prior to retirement. A significant number of retirees did just that and no cost savings were realized.

1992/1993 Early Retirement Window:

The early retirement programs for the years 1992 and 1993 (treated here as a single program), were enacted for two reasons. First, during this period, educational reform was an area of intense legislative deliberation. Some maintained that an early retirement program would provide longer service teachers with the opportunity to retire. By so doing, openings would then be available to younger teachers who might be more amenable to change. Second, it was possible RIFs might be used to trim the size of government. Together these possibilities supported providing an early retirement program.

The time periods for the 1992 and 1993 open windows are shown in **Table #3**.

TABLE #3

Operative Dates for Early Retirement

	Employed in an Eligible Position	Application Submitted By	Retire By
1992	April 2, 1992	June 15, 1992	August 31, 1992
1993	March 1, 1993	July 1, 1993	August 31, 1993

Eligibility for these programs was identical to the criteria applied in 1982. **Table #4** provides the number of early retirees in the 92/93 programs, as well as the utilization rate.

TABLE #4

Number of Early Retirees

	1992			1993		
	Eligible	Retired	Utilization Rate	Eligible	Retired	Utilization Rate
PERS 1	9,381	1,198	12.8%	9,145	867	9.5%
TRS 1	6,611	826	12.5%	6,443	423	6.6%
Total	15,992	2,024	12.7%	15,588	1,290	8.3%

Appendix C

Future Eligibility for Social Security Benefits

Age Eligible for Full Social Security Benefit

If Born In	Will Be Age 62 In	Age For Full Benefit
1937 or Earlier	1999 or Earlier	65 Years
1938	2000	65 Years 2 Months
1939	2001	65 Years 4 Months
1940	2002	65 Years 6 Months
1941	2003	65 Years 8 Months
1942	2004	65 Years 10 Months
1943-1954	2005-2016	66 Years
1955	2017	66 Years 2 Months
1956	2018	66 years 4 Months
1957	2019	66 years 6 months
1958	2020	66 years 8 Months
1959	2021	66 years 10 Months
1960 or Later	2022 or Later	67 Years

Appendix D

1997 Monthly Premium Rates for Non-Medicare Eligible Retirees

Provider	Retiree Only	Retiree & Spouse	Provider	Retiree Only	Retiree & Spouse
Comm Hlth Plan	$156.43	$308.57	PacificCare	$155.24	$306.19
Group Health	160.12	315.95	QualMed	166.05	327.81
HealthPlus	178.95	353.81	Regence	179.64	354.99
HMO WA	161.29	318.29	Selectcare	157.86	311.43
Kaiser Foundation	146.22	288.15	Skagit Co Medical	143.79	263.29
Kitsap Physcn Svcs	163.23	322.17	**Uniform Medical**	158.29	312.29
Medical Svcs Corp	158.20	312.11	Virginia Mason	143.29	262.29
NYLCare	146.66	289.03	Whatcom Med Bureau	143.79	283.29
Options Hlth Care	162.64	320.99			

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**03/12/03**	**SHB 2180**

SUMMARY OF BILL:

This bill impacts the Public Employee's Retirement System (PERS) and School Employee's Retirement System (SERS) by offering retirement incentives to members retiring between September 1, 2003 and February 29, 2004.

PERS 1 members who retire during this window may withdraw all or part of their accumulated contributions and receive an allowance actuarially reduced to reflect the monthly annuity which would have been purchased by those contributions.

PERS 2/3 and SERS 2/3 members who have at least 5 years of service and reached at least age 60 would be eligible to retire during the window and receive an allowance reduced 3% per year for the difference in the number of years between their age at retirement and age 65.

PERS and SERS members who retire during this window would also receive a temporary increase in their retirement allowance of $10 per month for each year of service. This increase would remain in effect for the first 24 months of the member's retirement.

PERS and SERS members who retire under this bill and return to work with a PERS or SERS employer would have their retirement allowance reduced 5.5% for each 8 hours worked per month (for a maximum reduction of 100%).

The PERS 2 and SERS 2 employee contribution rate shall not be impacted by this bill.

Effective Date: 90 days after session.

CURRENT SITUATION:

Currently, PERS 1 members may retire with an unreduced benefit at age 60 with 5 years of service, at age 55 with 25 years of service, or at any age with 30 years of service.

Members of PERS 2 and SERS 2 may retire with an unreduced benefit at age 65 with 5 years of service. They are also eligible for a reduced benefit at age 55 if they have at least 20 years of service. PERS 2 and SERS 2 members who retire at age 55 with at least 30 years of service receive a 3% reduction for each year that their retirement age precedes age 65. Members who retire with at least 20 years of service, but less than 30 years of service, receive a larger actuarial reduction for early commencement of their benefit.

PERS 3 and SERS 3 members may receive the defined benefit portion of their retirement allowance at age 65 with 10 years of service, at age 65 with 5 years of service if 12 months of that service was earned after age 54, or at age 65 with 5 years service if that service was earned in Plan 2. They may also receive a benefit at age 55 with 30 years of service with the benefit reduced 3% per year for each year that their retirement age precedes age 65. They may also receive a benefit at age 55 with 10 years of service with the benefit actuarially reduced for each year that their retirement age precedes age 65.

MEMBERS IMPACTED:

About 10,100 active PERS 1 members would be affected by this bill. Of this total, about 1,300 members are 65 years of age or older and about 8,800 are under the age of 65. PERS 1 members must be eligible to retire to benefit under this bill.

There are approximately 8,800 PERS 2/3 members who would be affected by this bill. Of this total, about 2,300 members are 65 years of age or older; 1,700 between the ages of 60 and 64 who have 20 years of service or more; and another 4,800 members between the ages of 60 and 64 who have less than 20 years service (but more than 5 years of service). PERS 2/3 members must be at least age 60 with at least 5 years of service to benefit under this bill.

There are approximately 3,900 SERS 2/3 members who would be affected by this bill. Of this total, about 1,100 members are 65 years of age or older; 600 between the ages of 60 and 64 who have 20 years of service or more; and another 2,200 members between the ages of 60 and 64 who have less than 20 years service (but more than 5 years of service). SERS 2/3 members must be at least age 60 with at least 5 years of service to benefit under this bill.

All members who elect to retire under this bill receive $10 per month for each year of service for the first 2 years of their retirement. PERS 1 members will have the opportunity to retire with a lump sum plus a reduced retirement allowance. PERS 2/3 and SERS 2/3 members under age 65 receive a subsidized 3% early retirement reduction instead of a full actuarial reduction.

The $10 per month (times years of service) temporary annuity will provide an incentive for all affected PERS and SERS members to retire. The lump sum benefit for PERS 1 members will provide an additional incentive for some affected PERS 1 members to retire. The lump sum benefit, however, will also reduce the amount of their guaranteed retirement allowance (prior to lump sum). The subsidized early retirement reduction factor will provide an additional incentive for affected PERS 2/3 and SERS 2/3 members under age 65 to retire. This incentive will likely vary depending on the amount of the member’s retirement allowance in relation to their pre-retirement income. In other words, the larger the retirement allowance, the larger the incentive to retire. All else being equal, the more service a member has at retirement, the larger the retirement allowance.

ASSUMPTIONS:

The following table contains the retirement probability assumptions utilized in this fiscal note:

System / Plan / Characteristics	Retirement Assumption
Plan 1 (employed and eligible to retire)	50%
Plan 2/3 age 65 and older	Twice the normal rate
Plan 2/3 age 60-64 with 20 or more years of service	100%
Plan 2/3 age 60-64 with less than 20 years of service	Normal rate for those with 20 years of service

FISCAL IMPACT:

Description:

For PERS 1, a large part of the cost stems from the election of the affected members to retire earlier than our ongoing assumptions indicate, rather than from any benefits provided under this bill. For PERS 2/3 and SERS 2/3, the costs arise primarily from the extra benefits provided under this bill.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

(Dollars in Millions)		Public Employees' Retirement System: Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	PERS 1	$ 12,244	$ 102	$ 12,346
	PERS 2/3	12,428	65	12,493
	SERS 2/3	1,610	13	1,623
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	PERS 1	$ 860	$ 117	$ 977
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	PERS 1	$ 301	$ 148	$ 449
	PERS 2/3	(4,874)	128	(4,746)
	SERS 2/3	(724)	22	(702)
Required Contribution Rate (Employer)*	PERS	2.05%	**.24%**	2.29%
	SERS	1.74%	**.24%**	1.98%

The increase includes .09% for the Plan 1 UAAL and .15% for employer normal cost in Plan 1 or Plan 2/3.

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Effective September 1, 2003	**PERS**	**SERS**
Increase in Contribution Rates:		
Employee	0.00%	0.00%
Employer State	0.24%	0.24%
Costs **(in Millions)**:		
2003-2005		
State:		
General Fund	$ 6.7	$ 2.8
Non-General Fund	10.7	0.0
Total State	**$ 17.4**	**$ 2.8**
Local Government	$ 15.5	$ 2.4
2005-2007		
State:		
General Fund	$ 8.1	$ 3.6
Non-General Fund	13.2	0.0
Total State	**$ 21.3**	**$ 3.6**
Local Government	$ 19.0	$ 3.2
2003-2028		
State:		
General Fund	$ 166.5	$ 79.5
Non-General Fund	272.3	0.0
Total State	**$ 438.8**	**$ 79.5**
Local Government	$ 389.7	$ 70.4

State Actuary's Comments:

The actual cost of this bill will be based on the actual number of affected members who elect to participate in the window. We have not included the impact of transfers from PERS 2 to PERS 3. The impact for the purposes of this fiscal note, however, is negligible.

It is assumed that terminated-vested members are not eligible for this window.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2001 actuarial valuation report of the Public Employee's Retirement System and School Employee's Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report are described in the body of the fiscal note.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2003 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:
- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all Plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

H-2371.1

SUBSTITUTE HOUSE BILL 2180

State of Washington 58th Legislature 2003 Regular Session

By House Committee on Appropriations (originally sponsored by Representatives Romero, Hunt, Sommers, Armstrong, Conway, Kessler, Kenney, Rockefeller and McDermott)

READ FIRST TIME 03/10/03.

AN ACT Relating to early retirement; reenacting and amending RCW 41.45.061; adding new sections to chapter 41.40 RCW; and adding new sections to chapter 41.35 RCW.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.40 RCW under the subchapter heading "plan 1" to read as follows:

(1) Any member retiring between September 1, 2003, and February 29, 2004, may irrevocably elect, at the time of retirement, to withdraw all or a part of his or her accumulated contributions, other than any amount paid under RCW 41.50.165, and to receive, in lieu of the full retirement allowance provided by RCW 41.40.185, a reduction in the standard two percent allowance, of the actuarially determined amount of monthly annuity which would have been purchased by the contributions.

(2) No member electing the option provided in subsection (1) of this section may withdraw an amount of accumulated contributions which would lower his or her retirement allowance below the minimum allowance provided by RCW 41.40.1984 on the date the withdrawal is made.

(3) The monthly retirement allowance of a member electing the

option provided in subsection (1) of this section may be reduced even further pursuant to the options provided in RCW 41.40.188.

(4) If a retiree under this section enters employment with an employer, the retiree's monthly retirement allowance will be reduced by five and one-half percent for every eight hours worked during that month up to a maximum reduction of one hundred percent.

NEW SECTION. **Sec. 2.** A new section is added to chapter 41.40 RCW under the subchapter heading "plan 2" to read as follows:

(1) Any member with at least five service credit years who has attained at least age sixty shall be eligible to retire between September 1, 2003, and February 29, 2004, and to receive a retirement allowance computed according to RCW 41.40.620, except that a member retiring under this section shall have his or her retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(2) The monthly retirement allowance of a member retiring under this section may be reduced even further as provided in RCW 41.40.660.

(3) If a retiree under this section enters employment with an employer, the retiree's monthly retirement allowance will be reduced by five and one-half percent for every eight hours worked during that month up to a maximum reduction of one hundred percent.

NEW SECTION. **Sec. 3.** A new section is added to chapter 41.40 RCW under the subchapter heading "plan 3" to read as follows:

(1) Any member with at least five service credit years who has attained at least age sixty shall be eligible to retire between September 1, 2003, and February 29, 2004, and to receive a retirement allowance computed according to RCW 41.40.790, except that a member retiring under this section shall have his or her retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(2) The monthly retirement allowance of a member retiring under this section may be reduced even further as provided in RCW 41.40.845.

(3) If a retiree under this section enters employment with an

employer, the retiree's monthly retirement allowance will be reduced by five and one-half percent for every eight hours worked during that month up to a maximum reduction of one hundred percent.

Sec. 4. RCW 41.45.061 and 2001 2nd sp.s. c 11 s 13, 2001 2nd sp.s. c 11 s 12, and 2001 c 180 s 1 are each reenacted and amended to read as follows:

(1) The required contribution rate for members of the plan 2 teachers' retirement system shall be fixed at the rates in effect on July 1, 1996, subject to the following:

(a) Beginning September 1, 1997, except as provided in (b) of this subsection, the employee contribution rate shall not exceed the employer plan 2 and 3 rates adopted under RCW 41.45.060, 41.45.053, and 41.45.070 for the teachers' retirement system;

(b) In addition, the employee contribution rate for plan 2 shall be increased by fifty percent of the contribution rate increase caused by any plan 2 benefit increase passed after July 1, 1996;

(c) In addition, the employee contribution rate for plan 2 shall not be increased as a result of any distributions pursuant to section 309, chapter 341, Laws of 1998 and RCW 41.31A.020.

(2) The required contribution rate for members of the school employees' retirement system plan 2 shall equal the school employees' retirement system employer plan 2 and 3 contribution rate adopted under RCW 41.45.060, 41.45.053, and 41.45.070, except as provided in subsection (3) of this section.

(3) The member contribution rate for the school employees' retirement system plan 2 shall be increased by fifty percent of the contribution rate increase caused by any plan 2 benefit increase passed after September 1, 2000.

(4) The required contribution rate for members of the public employees' retirement system plan 2 shall be set at the same rate as the employer combined plan 2 and plan 3 rate.

(5) The required contribution rate for members of the law enforcement officers' and fire fighters' retirement system plan 2 shall be set at fifty percent of the cost of the retirement system.

(6) The employee contribution rates for plan 2 under subsections (3) and (4) of this section shall not include any increase as a result of any distributions pursuant to RCW 41.31A.020 and 41.31A.030.

(7) The required plan 2 and 3 contribution rates for employers shall be adopted in the manner described in RCW 41.45.060, 41.45.053, and 41.45.070.

<u>(8) The employee contribution rate for members of the public employees' retirement system plan 2 and school employees' retirement system plan 2 shall not include any increase as a result of this act.</u>

<u>NEW SECTION.</u> **Sec. 5.** A new section is added to chapter 41.40 RCW to read as follows:

(1) The monthly retirement allowance of a person retiring pursuant to this act shall be temporarily increased by ten dollars per month per year of service. This increase shall remain in effect for the first twenty-four months of the person's retirement.

(2) Because of the temporary nature of this section it shall not be codified.

<u>NEW SECTION.</u> **Sec. 6.** A new section is added to chapter 41.35 RCW under the subchapter heading "plans 2 and 3" to read as follows:

(1) Any member with at least five service credit years who has attained at least age sixty shall be eligible to retire between September 1, 2003, and February 29, 2004, and to receive a retirement allowance computed according to RCW 41.35.400 for plan 2 members or RCW 41.35.620 for plan 3 members, except that a member retiring under this section shall have his or her retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(2) The monthly retirement allowance of a member retiring under this section may be reduced even further as provided in RCW 41.35.220.

(3) If a retiree under this section enters employment with an employer, the retiree's monthly retirement allowance will be reduced by five and one-half percent for every eight hours worked during that month up to a maximum reduction of one hundred percent.

<u>NEW SECTION.</u> **Sec. 7.** A new section is added to chapter 41.35 RCW to read as follows:

(1) The monthly retirement allowance of a person retiring pursuant to this act shall be temporarily increased by ten dollars per month per

year of service. This increase shall remain in effect for the first twenty-four months of the person's retirement.

(2) Because of the temporary nature of this section it shall not be codified.

--- END ---

Extended School Year - Post-retirement Employment

Background

The great majority of schools in Washington have a school year that runs from September through June. A handful of schools and school districts have extended school years that end in July – the next fiscal year. Because the school year is defined as the fiscal year in TRS 1, legislation was enacted in 2002 allowing TRS 1 members to use compensation from two extended school years in calculating their retirement benefit. If a TRS 1 retiree returns to work in an extended school year school, they may, by accepting subsequent employment at a school that uses a regular schedule, work beyond the 1,500 hour limit and have their retirement benefit suspended. Their benefit would be resumed when they separated at the end of the contract or school year.

Committee Activity

Presentation:
November 18, 2003 - Full Committee Meeting

Recommendation to Legislature

None

Staff Contact

Robert Wm. Baker – 586-9237 – baker_bo@leg.wa.gov

Extended School Year Post-Retirement Employment

(November 10, 2003)

Issue

A TRS 1 retiree returning to work in a district that uses an extended school year schedule might have their benefit suspended if they subsequently work for a school district that uses a regular school year schedule.

Staff

Robert Wm. Baker (360) 586-9237

Members Impacted

There were an estimated 98 TRS 1 members working in extended school year schools who may be impacted by this issue.

Current Situation

TRS 1 retirees may return to work for up to 1,500 hours per school year before their benefits are suspended.

There are currently two school districts and 11 schools in other districts that use extended school year schedules. Enrollment in these schools is an estimated 8,000 students.

History

Chapter 31, Laws of 2003, amended the TRS provisions so as to allow the use of extended school year dates in determining a members average final compensation.

Policy

There is no current policy regarding post-retirement employment in extended-year schools.

Illustration

The following figure illustrates how a TRS 1 member could work more than 183 days in a "school year" in a select post-retirement situation. Because the extended school year member would work in July, their contract extends into the subsequent "fiscal year/school year." In the extended school year school, the member would actually work 175 days in the school year, and in the subsequent regular school the member would work 185 days.

Days per Month by Regular and Extended School Year

	Fiscal Year / School Year 1												*Fiscal Year / School Year 2*											
	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J
			Extended School Year												*Regular School Year*									
Days			16	17	16	15	19	15	22	17	17	21	5		20	23	17	15	19	15	23	17	20	11

This could, depending on the actual number of days worked in July and the number of hours in the school year, result in such a member working over 1,500 hours in the subsequent school year as shown in the following illustration. Members who work beyond 1,500 hours per school year in a post-retirement situation will have their retirement benefit suspended. Their benefit would resume the month following their separation from employment.

Hours Analysis Based on 5 Working Days in July and a 183-Day Contract

Hours per day	Hours per year	Hours in July	Hours in Year 2
8.0	1,464	40	1,504

Stakeholder Input

See attachment

November 10, 2003

Select Committee for Pension Policy

Subject: Extended School Year and Rehirement

Dear Members,

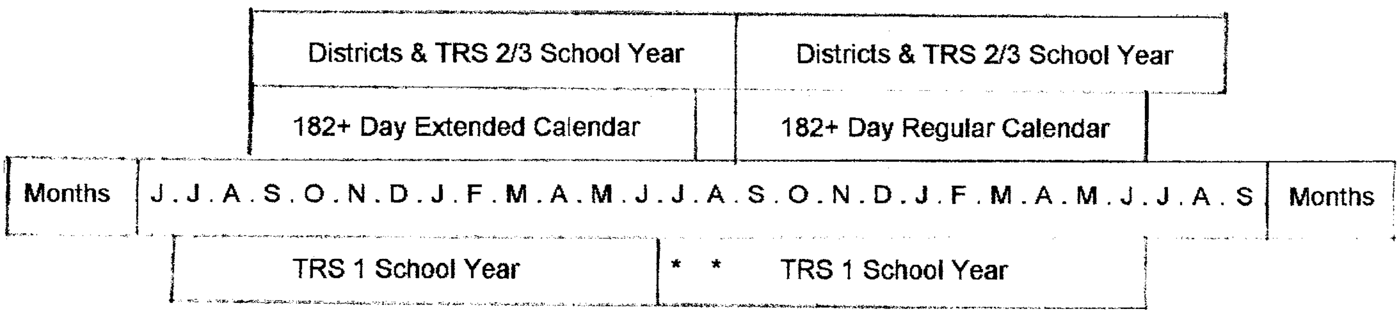
During the 2002 JCPP session it was suggested that by defining "school year" in RCW 41.32.010 the 1500 hour rehire criteria contained in RCW 41.32.570 would be clarified. As a 2003 SCPP agenda item, a refined proposal was submitted to the committee in a letter dated, September 16, 2003. This request included a policy issue dealing with the required waiting period for rehired extended year retirees. The proposal also suggested inserting a direct reference to RCW 28A.150.040 (the controlling statutory definition of "school year") into the current language of RCW 41.32.570 as the means to clarify the 1500 hour provision. This was done to be in keeping with how school year is currently defined within RCW 41.32.013. The proposal concerning the waiting period should remain a distinct item of consideration, even if it has to be deferred along with other policy matters until the 2004 Interim Session. In this light, it is requested that the required waiting period issue be included as a specific proposed policy matter in the forthcoming SCPP Rehire Report.

The 1500 hour issue is actually a stand-alone matter that only requires statutory clarification to indicate in which period of time are the hours to be accumulate. To focus on a specific question, the following consideration is posed. What is meant by the reference to "1500 hours per school year"; is it intended to be the DRS fiscal year or the district's school year? Comments for further consideration of this issue, along with the waiting period issue, are summarized below.

There is a one calendar month waiting period currently required before an active TRS 1 teacher can rehire as a retiree. This requirement does not present a problem for teachers who retire out of a regular calendar (Sep-Jun) school. These teachers are allowed to participate in the August hiring process and be hired without penalty because July is the waiting period. However, teachers who work in extended calendar schools normally do not complete their contract employment until sometime in July. Their required waiting period must be August. These teachers can not participate in the hiring process that would allow for a full year of employment as a rehiree unless they accept the waiting period penalty. This proposal would allow the extended year retirees to have the same statutory access for rehire as the regular year retirees by being exempted from the required one month waiting period. The waiting period would be waved only if the retiree completed the entire employment contract which required the final year of active service to be extended into July. Even though it applies to a relative small portion of the TRS 1 membership, this issue is a fairness and equality matter that merits corrective action,

A TRS 1 teacher (active or retired) who works during July, as a full-time teacher or short-term replacement in an extended year school, can have their June retirement benefit suspended if they subsequently rehire to work the following full school year in a regular year school. This is an unintended consequence that occurs because DRS currently uses its fiscal year period (Jul-Jun) to administer the 1500 hour limitation. This requires the total hours of one full school year (Sep-Jun) to be combined with the hours from an extra month (July) from the previous school year to determine if the 1500 hours have been exceeded (See the Hours Analysis table below). Are the 1500 hours intended to accumulate during the actual employee/employer school year; or must the accumulation period be in concert with the DRS fiscal year? DRS currently administers this provision via WAC 415-112-541, which interprets the intent to be based on the DRS's fiscal year. Clarification of the statutory intent is being sought because school year is not currently defined in RCW 41.32.010. The proposal suggests that the limitation is intended to be based on the district's school year. The proposed solution requests that a direct reference to RCW 28A.150.040 be inserted into the current language of RCW 41.32.570. This would mirror how school year is statutorily defined in RCW 41.32.013; and would require only a simple clarifying revision to the rehire statute. The revision language could be "...1500 hours in a school year, as defined in RCW 28A.150.040". This is not a policy matter, it is a clarification matter; and it is requested that recommended action be approved by the SCPP this year.

The graphic presented below reflects the relationship of the applicable time periods that apply to this situation, and depicts time lines over a two year period.



Note: * Indicates the period of time (Jul & perhaps Aug) that is in question

The table below reflects the actual circumstance that would apply if the full year of employment where to occur in a school districts that has an extended year program. It should be noted that it is based on actual data that would apply to the current 2003-2004 school year.

Hours Analysis Based on 15 Work Days* in July 2003
and For 182** Work Days & 186** Work Days in the 2003 - 2004 School Year

Hours per Day	WA State** Hours per Year	District** Hours per Year	July* Hours	TRS 1 School Year Hours
8.0	1456	1488	120.0	**1576 & 1608**
*7.5	1365	1395	112.5	1477.5 & **1507.5**
7.0	1274	1202	105.0	1370 & 1407

Notes: * Most districts' require a 7.5 hour work day, and FWSD (a typical district) required 15 work days in July '03
** WA St requires 182 days & districts can specify additional days; FWSD will have 186 paid days in '03-'04

The statutory **1500** hour limit is exceeded, as indicated above, only if the DRS school year is utilized. It requires the July hours from one district school year to be combined with the total hours of the following district school year. The 1500 hour limitation accommodates all of the district's work days with some slack hours left over. However, the 1500 hours limit should not be expected to accommodate the additional July work days. The 1500 hour limit should be based on the district school year; not the DRS fiscal year, as currently required by the WAC rule.

The above considerations have been presented to the Committee in an effort to be proactive to insure that the State's extended school year teachers' unique circumstances are adequately and fairly addressed within the TRS provisions. Action by the Committee on these matters will enable these teachers to have access to the same statutory provisions that are intended for the majority of the TRS 1 members, the regular school year teachers.

Please except this letter as written testimony since it is intended to reduce the verbal commentary during the time allowed for public input. I will be available to respond to any questions during the scheduled November 18 SCPP meeting. Thank you for the time reviewing this input and any discussion that may ensue.

Respectfully,

Bobby J. Woolley

Bobby J Woolley

LEOFF 1 Survivor Benefits

Background

The surviving spouse of a LEOFF 1 retiree is eligible to receive a benefit equal to the retiree's monthly retirement allowance. A spouse must have been married to a LEOFF 1 member for one year prior to retirement or separation from service in order to qualify as a surviving spouse. The benefit includes a yearly cost-of-living-adjustment for the full amount of any increase in the Seattle-Tacoma-Bremerton CPI-W.

Members who choose to designate a spouse from a post-retirement marriage as a beneficiary accept an actuarial reduction of their benefit.

Members propose allowing a spouse from a post-retirement marriage to receive an unreduced benefit if the spouse was married to the member at least 5 years before the member's death and the allowance is deferred until the surviving spouse is age 55.

Committee Activity

Presentation:
December 16, 2003 - Full Committee Meeting

Recommendation to Legislature

None

Staff Contact

Robert Wm. Baker – 586-9237 – baker_bo@leg.wa.gov

LEOFF 1 Survivor Benefits

(December 10, 2003)

Issue

The retirement benefit of a LEOFF 1 member who designates a spouse from a post-retirement marriage is actuarially reduced. Members propose allowing a spouse from a post-retirement marriage to receive an unreduced benefit if the spouse was married to the member at least 5 years before the member's death and the allowance is deferred until the surviving spouse is age 55.

Staff

Robert Wm. Baker (360) 586-9237

Members Impacted

Any of the 1,147 active, 22 terminated vested, or 7,987 retired members of this system who might marry or re-marry after their separation from service could be affected by this proposal.

Current Situation

The surviving spouse of a LEOFF 1 retiree is eligible to receive a benefit equal to the retiree's monthly retirement allowance. A spouse must have been married to a LEOFF 1 member for one year prior to retirement, or separation from service, in order to qualify as a surviving spouse. The benefit includes a yearly cost-of-living-adjustment for the full amount of any increase in the Seattle-Tacoma-Bremerton CPI-W.

Members who choose to designate a spouse from a post-retirement marriage as a beneficiary accept an actuarial reduction of their benefit.

History

HB 1715 and SB 5788 were introduced in the 2003 legislative session. These bills would have granted an unreduced benefit deferred to age 55 to a post-retirement spouse who had been married to the member at least 5 years before the member's death. Neither bill received a hearing.

Policy Analysis

Until recently, spouses of Washington state retirement system members were only able to share in a member's retirement benefit if they were married during the member's career. Law changes in 2001 and 2002 allowed members to designate spouses from post-retirement marriages only if such a designation were of no cost to the plans, i.e. the benefit was actuarially reduced.

Administrative Impact (DRS)

Input requested.

Executive Committee Recommendation

Forward the issue to the full committee for their consideration.

Bill Draft

See attachment.

Fiscal Note (Draft)

See attachment.

FISCAL NOTE – DRAFT

RESPONDING AGENCY:	CODE:	DATE:	REQUEST NO. BILL NUMBER:
Office of the State Actuary	**035**	**12/10/03**	**Z-0889.1/04**

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 (LEOFF 1) by providing survivor benefits to spouses of post-retirement marriages. To be eligible, spouses must have been married to the LEOFF 1 member for at least 5 years prior to the member's death and the survivor benefit is deferred to age 55.

Effective Date: 90 days after session.

CURRENT SITUATION:

Currently, the surviving spouse of a LEOFF 1 retiree is eligible to receive a survivor benefit which is equal to the retiree's monthly retirement allowance. The survivor benefit includes a yearly cost-of-living-adjustment for the full amount of any increase in the Seattle-Tacoma-Bremerton Consumer Price Index for Wage Earners and Clerical Workers (CPI-W).

A spouse must have been married to a LEOFF 1 member for one year prior to retirement, or separation from service, in order to qualify as a surviving spouse and receive the unreduced benefit. A member who had not been married prior to retirement may designate a spouse from a post-retirement marriage and accept an actuarially reduced benefit.

MEMBERS IMPACTED:

Any of the 1,147 active, 22 terminated vested, or 7,987 retired members of this system who might marry or re-marry after their separation from service could be affected by this bill.

The eligible spouse of a retired member receives the same benefit as the retired member. The eligible spouse of a deferred vested member receives the same benefit as the member would have received at age 50.

The average retirement benefit is currently $ 2,730 a month.

ASSUMPTIONS:

Currently, 60% of members die with an eligible spouse. For purposes of this bill, we have assumed an additional 20% (or half of the remainder) would die with an eligible spouse due to the expanded eligibility for survivor benefits under this bill. A recent survey of 10% of the retired member and beneficiary population of fire fighters from LEOFF 1 indicated that 11% have married since retirement.

FISCAL IMPACT:

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

Law Enforcement Officers' and Fire Fighters' Retirement System			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	$4,338	$ 243	$4,581
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	$(757)	$ 243	$(514)
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	$(830)	$ 240	$(590)
Required Contribution Rate (state)	(5.04)%	**1.38%**	(3.66)%

Fiscal Budget Determinations:

While there is no impact while the plan remains fully funded, below we show the change in the projected contributions starting when the plan is no longer expected to be fully funded (based on a 13.6% rate of investment return through August 31, 2003 and assuming an annual return on the Market Value of assets of 8% thereafter).

Costs (in Millions):

2004-2005	
State:	
General Fund	$0.0
Non-General Fund	0.0
Total State	**$0.0**
Local Government	$0.0
Total Employer	$0.0
Total Employee	$0.0
2005-2007	
State:	
General Fund	$0.0
Non-General Fund	0.0
Total State	**$0.0**
Local Government	$0.0
Total Employer	$0.0
Total Employee	$0.0
2004-2029	
State:	
General Fund	$769.0
Non-General Fund	0.0
Total State	**$769.0**
Local Government	$4.3
Total Employer	$773.3
Total Employee	$4.3

State Actuary's Comments:

Predicting when a plan might come out of full funding is rather difficult. The effect of the proposed plan change is more predictable, once the plan is no longer fully funded. The above costs are based on one projection of costs which shows the plan to emerge from a fully funded status during the 2004-2029 timeframe. More specifically, the projection shows that contributions will resume at the start of 2011-2113 biennium (before this proposed plan change) and will resume at the start of the 2007-2009 biennium after this proposed plan change (if adopted).

We have estimated the actual rate of investment return for the period 10/1/2002 through 8/31/2003 at 13.6%. The return on assets usually has the most significant impact on the plan's funded status from one year to the next.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2002 actuarial valuation report of the Law Enforcement Officers' and Fire Fighters' Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report or in the body of this fiscal note include the following: None.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2004 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:
- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

AN ACT Relating to extending death benefits to certain surviving spouses under the law enforcement officers' and fire fighters' retirement system; and amending RCW 41.26.160 and 41.26.161.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.26.160 and 2002 c 158 s 1 are each amended to read as follows:

(1) In the event of the duty connected death of any member who is in active service, or who has vested under the provisions of RCW 41.26.090 with twenty or more service credit years of service, or who is on duty connected disability leave or retired for duty connected disability, the surviving spouse shall become entitled, subject to RCW 41.26.162(2), to receive a monthly allowance equal to fifty percent of the final average salary at the date of death if active, or the amount of retirement allowance the vested member would have received at age fifty, or the amount of the retirement allowance such retired member was receiving at the time of death if retired for duty connected disability. The amount of this allowance will be increased five percent of final average salary for each child as defined in RCW 41.26.030(7), subject to a maximum combined allowance of sixty percent

of final average salary: PROVIDED, That if the child or children is or are in the care of a legal guardian, payment of the increase attributable to each child will be made to the child's legal guardian or, in the absence of a legal guardian and if the member has created a trust for the benefit of the child or children, payment of the increase attributable to each child will be made to the trust.

(2)(a) Subject to (b) of this subsection, if at the time of the duty connected death of a vested member with twenty or more service credit years of service as provided in subsection (1) of this section or a member retired for duty connected disability, the surviving spouse has not been lawfully married to such member for one year prior to retirement or separation from service if a vested member, the surviving spouse shall not be eligible to receive the benefits under this section((~~: PROVIDED, That~~)).

(b)(i) If the surviving spouse has been lawfully married to a member under (a) of this subsection for five years prior to the member's death, the surviving spouse, when at least age fifty-five, is eligible to receive the benefits under this section.

(ii) If a member dies as a result of a disability incurred in the line of duty, then if he or she was married at the time he or she was disabled, the surviving spouse shall be eligible to receive the benefits under this section.

(3) If there be no surviving spouse eligible to receive benefits at the time of such member's duty connected death, then the child or children of such member shall receive a monthly allowance equal to thirty percent of final average salary for one child and an additional ten percent for each additional child subject to a maximum combined payment, under this subsection, of sixty percent of final average salary. When there cease to be any eligible children as defined in RCW 41.26.030(7), there shall be paid to the legal heirs of the member the excess, if any, of accumulated contributions of the member at the time of death over all payments made to survivors on his or her behalf under this chapter: PROVIDED, That payments under this subsection to children shall be prorated equally among the children, if more than one. If the member has created a trust for the benefit of the child or children, the payment shall be made to the trust.

(4) In the event that there is no surviving spouse eligible to

receive benefits under this section, and that there be no child or children eligible to receive benefits under this section, then the accumulated contributions shall be paid to the estate of the member.

(5) If a surviving spouse receiving benefits under this section remarries after June 13, 2002, the surviving spouse shall continue to receive the benefits under this section.

(6) If a surviving spouse receiving benefits under the provisions of this section thereafter dies and there are children as defined in RCW 41.26.030(7), payment to the spouse shall cease and the child or children shall receive the benefits as provided in subsection (3) of this section.

(7) The payment provided by this section shall become due the day following the date of death and payments shall be retroactive to that date.

Sec. 2. RCW 41.26.161 and 2002 c 158 s 2 are each amended to read as follows:

(1) In the event of the nonduty connected death of any member who is in active service, or who has vested under the provisions of RCW 41.26.090 with twenty or more service credit years of service, or who is on disability leave or retired, whether for nonduty connected disability or service, the surviving spouse shall become entitled, subject to RCW 41.26.162(2), to receive a monthly allowance equal to fifty percent of the final average salary at the date of death if active, or the amount of retirement allowance the vested member would have received at age fifty, or the amount of the retirement allowance such retired member was receiving at the time of death if retired for service or nonduty connected disability. The amount of this allowance will be increased five percent of final average salary for each child as defined in RCW 41.26.030(7), subject to a maximum combined allowance of sixty percent of final average salary: PROVIDED, That if the child or children is or are in the care of a legal guardian, payment of the increase attributable to each child will be made to the child's legal guardian or, in the absence of a legal guardian and if the member has created a trust for the benefit of the child or children, payment of the increase attributable to each child will be made to the trust.

(2) If at the time of the death of a vested member with twenty or more service credit years of service as provided in subsection (1) of

this section or a member retired for service or disability, the surviving spouse has not been lawfully married to such member for one year prior to retirement or separation from service if a vested member, the surviving spouse shall not be eligible to receive the benefits under this section. <u>However, if the surviving spouse has been lawfully married to such member for five years prior to the member's death, the surviving spouse, when at least age fifty-five, is eligible to receive the benefits under this section.</u>

(3) If there be no surviving spouse eligible to receive benefits at the time of such member's death, then the child or children of such member shall receive a monthly allowance equal to thirty percent of final average salary for one child and an additional ten percent for each additional child subject to a maximum combined payment, under this subsection, of sixty percent of final average salary. When there cease to be any eligible children as defined in RCW 41.26.030(7), there shall be paid to the legal heirs of the member the excess, if any, of accumulated contributions of the member at the time of death over all payments made to survivors on his or her behalf under this chapter: PROVIDED, That payments under this subsection to children shall be prorated equally among the children, if more than one. If the member has created a trust for the benefit of the child or children, the payment shall be made to the trust.

(4) In the event that there is no surviving spouse eligible to receive benefits under this section, and that there be no child or children eligible to receive benefits under this section, then the accumulated contributions shall be paid to the estate of said member.

(5) If a surviving spouse receiving benefits under this section remarries after June 13, 2002, the surviving spouse shall continue to receive the benefits under this section.

(6) If a surviving spouse receiving benefits under the provisions of this section thereafter dies and there are children as defined in RCW 41.26.030(7), payment to the spouse shall cease and the child or children shall receive the benefits as provided in subsection (3) of this section.

(7) The payment provided by this section shall become due the day following the date of death and payments shall be retroactive to that

date.

--- END ---

Mandatory Retirement Age for State Patrol

Background

Since the inception of the Washington State Patrol Retirement System (WSPRS) members have been required to retire at age 60, except the Chief, who may serve until age 65.

Committee Activity

Presentation:
November 18, 2003 – Full Committee Meeting
December 16, 2003 – Executive Committee Meeting

Recommendation to Legislature

On December 16, 2003, the Chair and Vice-Chair of the Select Committee on Pension Policy (SCPP) sent a letter to Rep. Ed Murray requesting that the Legislative Transportation Committee (LTC) consider the proposal of the Washington State Troopers Association to increase the mandatory retirement age for members of the Washington State Patrol Retirement System from 60 to 65. Specifically, the letter requests that the LTC consider the implications of the proposal for the safety of transportation in the State of Washington. Further, the letter requests that the LTC incorporate a study of this matter into its 2004 interim work plan.

Staff Contact

Laura Harper – 360-586-7616 – harper_la@leg.wa.gov

Mandatory Retirement Age in State Patrol

(December 10, 2003)

Issue	Increase the mandatory retirement age in the Washington State Patrol Retirement System (WSPRS) from 60 to 65.
Staff	Laura Harper, (360) 586-7616
Members Impacted	Any of the 1,035 active members of the WSPRS could be impacted by such a change, as these members would be given the choice to work beyond age 60. Since 1997, however, the median retirement age for this plan has been 52. Five members have retired at age 60 since 1997. Currently there are eleven active members who are projected to be age 58 or greater by June 30, 2004.
Current Situation	All members of the Washington State Patrol Retirement System are required to retire at age 60, except the Chief, who may serve until age 65.
History	This proposal comes from the Washington State Patrol Troopers Association. The same proposal was introduced in the 2003 session as HB 1323. The bill did not move out of committee.

Policy Analysis

The Washington State Patrol Retirement System is the only open state-administered system in Washington with a mandatory retirement age. The only other plans administered by the State that have mandatory retirement are the Judges and Judicial plans. The Judges plan closed to new members in 1971 and the Judicial plan closed to new members in 1988. In both plans mandatory retirement is constitutionally required at age 75. The other public safety-related plans in Washington are the Law Enforcement Officers' and Firefighters' (LEOFF) plans. Neither LEOFF 1 or LEOFF 2 have mandatory retirement ages.

A number of state retirement systems for highway patrol members have included a mandatory retirement age in their plan provisions: in New Jersey and Ohio the mandatory retirement age is 55; in California, Minnesota, Missouri, and Nebraska it is age 60; and in Wyoming it is age 65. Some states have repealed the mandatory retirement age for highway patrol members. Those states include South Carolina and Utah, with former mandatory retirement ages of 62, and Massachusetts with a former mandatory retirement age of 55.

Stakeholder Input

See Attachment from the Washington State Patrol Troopers Association dated September 16, 2003 and attachment from the Washington State Patrol dated December 9, 2003.

Options

Only one option is proposed: to increase the mandatory retirement age for members of the WSPRS from 60 to 65.

Administrative Impact (DRS)

Input requested.

Executive Committee Recommendation

On November 18, 2003, this matter was recommended for consideration by the Executive Committee of the Select Committee on Pension Policy.

Bill Draft

See attachment.

Fiscal Note (Draft)

See attachment.

WASHINGTON STATE PATROL TROOPERS ASSOCIATION

200 UNION AVE. SE STE. 200 , OLYMPIA, WASHINGTON 98501 (360) 704-7530 FAX (360) 704-7527

September 16, 2003

The Honorable Chair & Members
Select Committee on Pension Policy
2420 Bristol Court SW, Suite 101
Olympia, WA 98504

Dear Members,

On behalf of the active and retired members of the Washington State Patrol Troopers Association the follow are issues relating to the Washington State Patrol Retirement Systems Plan 1 and Plan 2 that we would like addressed by the Select Committee for 2004 Legislative consideration.

1. During the 2003 Legislative Session HB 1323, an act relating to the mandatory retirement age of WSPRS Plan 1 and Plan 2, was introduced and presented to the House Appropriations Committee. The bill extends the current mandatory retirement from age 60 to age 65. Both WSPRS 1 & 2 are service-based systems allowing for a retirement benefit after 25 years of service. The age 60 mandatory limit was established when Plan 1 had an age 30-entry limit. That limit was removed many years ago and as a result officers have been hired at ages over 30 and in some cases over 40, not allowing the member to serve 25 years before mandatory retirement. We feel the time has come to extend the mandatory limit to age 65.
2. The 2003 Legislature passed HB 1519, an act relating to death benefits for members of TRS, School Employees' Retirement System, and PERS. The new law provides for a survivor benefit paid to a survivor of a member killed in the "course of employment that is subject to an early retirement actuarial reduction. We propose that this same benefit be applied to members of WSPRS Plan 2. Currently the Death in Service Survivor Benefit for State Patrol Officers in Plan 2 with less than 10 years service the beneficiary receives only accumulated contributions to the system. The beneficiaries of officers killed in the line of duty should be provided with a benefit that is not actuarially reduced or a lump sum of contributions, but a monthly benefit as provided in HB 1519 or identical to that provided to WSPRS Plan 1 members.

Your attention to these issues will be greatly appreciated.

Sincerely,

Robert C. Thurston

Robert C. Thurston
President

CC: Rick Jensen, Governmental Affairs

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary_st@leg.wa.gov

December 3, 2003

Mr. Ronal Serpas, Chief
Washington State Patrol
P.O. Box 42601
Olympia, Washington 98504-2601

RE: PROPOSAL TO CHANGE MANDATORY RETIREMENT AGE

Dear Chief Serpas:

We are writing you on behalf of the Select Committee on Pension Policy (SCPP) to solicit your input for our Executive Committee meeting scheduled for December 16, 2003. The issue before us is whether to increase the mandatory retirement age in the Washington State Patrol Retirement System from 60 to 65. This issue was brought to the Committee by the Washington State Patrol Troopers Association, and was introduced in the 2003 session as HB 1323. This proposal has been renewed during the 2003 interim and the Select Committee on Pension Policy heard it again on November 18, 2003. At that time, the Executive Committee for the SCPP deferred action on the measure until its December meeting.

One of the reasons for deferring this matter was to provide an opportunity for your office to give more definitive input on the proposal. We were advised at our last meeting that you are "neutral" on this issue. We would very much appreciate hearing your analysis and recommendations on behalf of the Washington State Patrol, and are requesting that you provide us with a written response by no later than December 9, 2003. Please provide a copy to the Office of the State Actuary (OSA) so that your response can be included in the materials that are compiled by that office for our committee meetings.

We would also appreciate your attendance at our Executive Committee meeting on December 16, 2003. Please contact Sandra Granger in the OSA in order to get more specific information as to the timing of this agenda item. Thank you for the important job you are doing for the State of Washington, and we look forward to hearing from you.

Sincerely,

Representative Steve Conway, Chair
Select Committee on Pension Policy

Senator Shirley Winsley, Vice-Chair
Select Committee on Pension Policy

O:\SCPP\2003\12-16-03 Executive\WSP Ltr.wpd

(360) 753-9144
Fax: (360) 586-8135
TDD: 1-800-635-9993

STATE OF WASHINGTON
WASHINGTON STATE PATROL
General Administration Building, PO Box 42600 • Olympia, Washington 98504-2600 • (360) 753-6540

December 9, 2003

Representative Steve Conway, Chair
Select Committee on Pension Policy
PO Box 40914
Olympia WA 98504-0914

Dear Representative Conway:

Thank you for your December 3 letter regarding the proposal by the Washington State Patrol Troopers Association to change the mandatory retirement age from 60 to 65. As you know, my staff testified at the November hearing that we are neutral but have concerns on this issue.

Our concerns have to do with the fact that we don't see a compelling, public safety reason to change the current retirement age. As you may know, Washington State Patrol Retirement System (WSPRS) employees become "vested" for a retirement benefit after five years of service, and can collect that full benefit at age 60. After 25 years of service, WSPRS employees can retire with full benefits, irrespective of age, the 25 year mark tends to be the point at which many employees will end their career. Of our current commissioned staff, almost 92% will reach 25 years of service before age 60, less than 2% will reach 25 years of service at age 60, and less than 7% would retire at age 60 with less than 25 years of service, as follows:

	Employees	Percent
Eligible to retire with 25 yrs of service prior to 60 YOA	988	91.8%
Retire with 25 yrs of service at 60 YOA	17	1.6%
Retire with less than 25 yrs of service at 60 YOA	71	6.6%
Totals	**1,076**	**100.0%**

Although it is noted that individuals can work past 25 years of service in the WSPRS and earn additional retirement credit, our experience for the past six years has indicated that, on average, one person per year has worked to age 60 then retired. Our average age at retirement in WSPRS is 52.2 years of age and our median age at retirement is 52.3 years of age.

Based on this analysis, it seems that this bill would only benefit one person per year, if they so choose to continue to work after being retirement-eligible. Consequently, I recommend that this proposed bill not move forward as there is no demonstrable benefit to public safety.

Sincerely,

CHIEF RONAL W. SERPAS

RWS:cf
cc: Senator Shirley Winsley
Mr. Matthew M. Smith, Office of the State Actuary
Mr. Robert C. Thurston, President, WSPTA
Captain Glenn M. Cramer, Government and Media Relations
Mr. Robert L. Maki, Budget and Fiscal Services
Ms. Diane C. Perry, Management Services Bureau

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary_st@leg.wa.gov

(360) 753-9144
Fax: (360) 586-8135
TDD: 1-800-635-9993

December 16, 2003

Representative Ed Murray, Chair
Legislative Transportation Committee
P.O. Box 40600
Olympia, WA 98504-0600

RE: MANDATORY RETIREMENT AGE FOR WASHINGTON STATE PATROL

Dear Representative Murray:

On behalf of the Select Committee on Pension Policy (SCPP), we request that the Legislative Transportation Committee consider the following proposal during the next interim and report back to the SCPP with a recommendation. The proposal is to increase the mandatory retirement age in the Washington State Patrol Retirement System from 60 to 65. This issue was brought to the Committee by the Washington State Troopers Association, and was introduced in the 2003 session as HB 1323. The proposal was renewed during the 2003 interim and the SCPP heard it again on November 18, 2003. At that time, the Executive Committee deferred action on the measure until its December meeting.

At today's meeting the SCPP determined that the issue of whether to increase the mandatory retirement age for members of the Washington State Patrol is not just a public pension issue; rather, it is an issue with implications for the safety of transportation in the State of Washington. Therefore, we think it would be appropriate for your committee to incorporate a study of this issue into your work plan for the 2004 interim.

The Office of the State Actuary can provide you with background materials that are pertinent to this issue. We appreciate your consideration of this matter, and look forward to hearing from you.

Sincerely,

Representative Steve Conway, Chair　　　Senator Shirley Winsley, Vice-Chair

O:\SCPP\2003\12-16-03 Executive\Mandatory Ret. Age ltr to Rep.Murray.wpd

FISCAL NOTE – DRAFT

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**12/09/03**	**Z-0891.1/04**

SUMMARY OF BILL:

This bill impacts the Washington State Patrol Retirement System (WSPRS) by increasing the mandatory retirement age from 60 to 65.

Effective Date: 90 days after session.

CURRENT SITUATION:

Currently, members of the WSPRS must retire at 60 years of age. Only the Chief of the Washington State Patrol may serve after age 60. The WSPRS is the only open state-administered retirement system that has a mandatory retirement age.

Plan 1 members who retire with at least 25 years of service are eligible for up to 5 years of prior military service.

MEMBERS IMPACTED:

We estimate that any of 1,035 active members of this system could be affected by this bill if they choose to work beyond age 60.

This bill would also allow active Plan 1 members who will complete 25 years of service after age 60 (current mandatory retirement age) to earn prior military service credit if eligible.

FISCAL IMPACT:

Currently few members work to age 60. In most cases, the actuarial present value of an unreduced pension at age 60 is greater than the value of an increased pension benefit commencing after age 60 (increased for salary and service beyond age 60).

Actuarial Determinations:

The bill will impact the actuarial funding of the system by decreasing the present value of benefits payable under the System (for existing members impacted by this bill) and the required actuarial contribution rate as shown below:

(Dollars in Millions)	Washington State Patrol Retirement System: Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	$686	$(2)	$684
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	N/A	N/A	N/A
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	$(180)	$(2)	$(182)
Required Contribution Rate	(3.03)%	**(.22)%**	(3.25)%

Fiscal Budget Determinations:

While there in no impact while the plan remains fully funded, below we show the change in the projected contributions starting when the plan is no longer expected to be fully funded (based on a 13.6% rate of investment return through August 31, 2003 and assuming an annual return on the Market Value of assets of 8% thereafter).

Costs (in Millions):

2004-2005	
State:	
General Fund	$0.000
Non-General Fund	0.000
Total State	**$0.000**
Local Government	$0.000
Total Employer	$0.000
Total Employee	$0.000
2005-2007	
State:	
General Fund	$(0.013)
Non-General Fund	(0.211)
Total State	**$(0.224)**
Local Government	$0.000
Total Employer	$(0.224)
Total Employee	$(0.224)
2004-2029	
State:	
General Fund	$(0.196)
Non-General Fund	(3.077)
Total State	**$(3.273)**
Local Government	$0.000
Total Employer	$(3.273)
Total Employee	$(3.273)

State Actuary's Comments:

Predicting when a plan might come out of full funding is rather difficult. The effect of the proposed plan change is more predictable, once the plan is no longer fully funded. The above costs are based on one projection of costs which shows the plan to emerge from a fully funded status with our next valuation (9/30/03) which is the basis for the recommended 2005-2007 contribution rates. We have estimated the actual rate of investment return for the period 10/1/2002 through 8/31/03 at 13.6%. The return on assets usually has the most significant impact on the plan's funding status from one year to the next.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2002 actuarial valuation report of the Washington State Patrol Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

   The retirement rates for LEOFF 2 were used for ages 60 to 65: (33% for age 60, 37% for ages 61 to 63, 48% age 64, 100% for age 65)

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2004 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:
- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

AN ACT Relating to establishing the retirement age for members of the Washington state patrol retirement system; and amending RCW 43.43.250.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 43.43.250 and 1982 1st ex.s. c 52 s 26 are each amended to read as follows:

(1)<u>(a) Until July 1, 2004, a</u>ny member who has attained the age of sixty years shall be retired on the first day of the calendar month next succeeding that in which ((~~said~~)) <u>the</u> member ((~~shall have~~)) <u>has</u> attained the age of sixty((~~: PROVIDED, That~~))<u>. However,</u> the requirement to retire at age sixty ((~~shall~~)) <u>does</u> not apply to a member serving as chief of the Washington state patrol.

<u>(b) Beginning July 1, 2004, any active member who has obtained the age of sixty-five years shall be retired on the first day of the calendar month next succeeding that in which the member has attained the age of sixty-five. However, the requirement to retire at age sixty-five does not apply to a member serving as chief of the Washington state patrol.</u>

(2) Any member who has completed twenty-five years of credited service or has attained the age of fifty-five may apply to retire as provided in RCW 43.43.260, by completing and submitting an application form to the department, setting forth at what time the member desires to be retired.

--- END ---

Background

State elected official members of most Washington State Retirement Systems and plans must separate from service in order to retire and begin receiving their retirement benefits, regardless of age. TRS 1 is the exception in permitting state elected officials who are TRS 1 members, if otherwise eligible, to begin receiving their retirement benefit while serving in state elective office. The LEOFF 1 plan also allows retired members to work for any non-LEOFF employer without a reduction of their benefits.

Membership and benefits for state elected officials vary by plan, and also vary from the regular members of those plans. Some plans have rules for local government elected officials and officials appointed directly by the Governor that are distinct from the state elected official rules. Regardless of the various membership requirements, all Washington's defined benefit plans require members to be separated for one month before they may receive their retirement benefit.

Earlier legislation was proposed that would allow members holding state elective office the option, at the beginning of each term of office, to continue active membership or to retire and begin receiving their retirement allowance.

Committee Activity

Presentation:
December 16, 2003 - Full Committee Meeting

Recommendation to Legislature

None

Staff Contact

Robert Wm. Baker – 586-9237 – baker_bo@leg.wa.gov

Opt In/Opt Out

(December 9, 2003)

Issue	Allow members holding state elective office the option, at the beginning of each term of office, to continue active membership or to retire and begin receiving their retirement allowance.
Staff	Robert Wm. Baker (360) 586-9237
Members Impacted	All members of PERS, SERS, TRS 2/3, or LEOFF 2 who hold state elective office. There are currently 139 state elective and appointed officials who are plan members without other public employment.
Current Situation	State elected official members of most Washington State Retirement Systems and plans must separate from service in order to retire and begin receiving their retirement benefits, regardless of age. TRS 1 is the exception in permitting state elected officials who are TRS 1 members, if otherwise eligible, to begin receiving their retirement benefit while serving in state elective office. The LEOFF 1 plan also allows retired members to work for any non-LEOFF employer without a reduction of their benefits.
History	Companion bills HB 1201 and SB 5095 were introduced in the 2003 session. This legislation would have allowed PERS, SERS, TRS2/3, or LEOFF 2 members holding state elective office the option, at the beginning of each term of office, of continuing active membership or retiring and beginning their retirement allowance. SB 5095 passed the Senate. HB 1201 did not receive a hearing.

Policy Analysis

Membership and benefits for state elected officials vary by plan, and also vary from the regular members of those plans. Some plans have rules for local government elected officials and officials appointed directly by the Governor that are distinct from the state elected official rules.

Elected officials may, during their first term in office, apply for membership in PERS 2/3 or continue membership in their current plan. Members may generally continue to receive retirement benefits, or return to active membership from retirement upon entering office.

TRS 2/3 members are an exception to the general rule. They may take a leave of absence without pay from TRS 2/3 to serve in state elected office and be a member of no plan, or accumulate PERS 2/3 service during their term(s) of office. Upon return to active TRS service, a member that chose a leave of absence may purchase up to two years of TRS unpaid leave of absence service.

With the exception of PERS 2/3, an individual must establish membership in the plan prior to entering an elected or appointed state office. PERS 2/3 is among those with different rules for state elected officials and Governor-appointed officials.

Regardless of the various membership requirements, all defined benefit plans require members to be separated for one month before they may receive their retirement benefit.

Administrative Impact (from DRS)

Input requested.

Executive Committee Recommendation

Refer the issue to the full committee for its consideration.

Bill Draft

See attachment.

Fiscal Note (Draft)

See attachment.

FISCAL NOTE – DRAFT

RESPONDING AGENCY:	CODE:	DATE:	REQUEST NO. BILL NUMBER:
Office of the State Actuary	**035**	**12/09/03**	**Z-0939.1/04**

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2, the Public Employees Retirement System, the Teachers' Retirement System Plan 2 and Plan 3, and the School Employees' Retirement System by permitting members who are state elected officials to continue or resume membership, and if otherwise eligible, retire and begin their retirement allowance at the beginning of each term of office. A state elected official member who chooses to end membership at the beginning of a term of office, and begin their retirement allowance, shall neither make contributions nor earn service credit for the duration of that term.

Effective Date: 90 days after session.

CURRENT SITUATION:

State elected official members of most Washington State Retirement Systems and plans must separate from service in order to retire and begin receipt of their retirement benefits regardless of age. While the rules for state elected officials vary by system and plan, the Teachers' Retirement System Plan 1 is a notable distinction in permitting state elected officials, if otherwise eligible, to begin their retirement benefit while serving in state elective office.

FISCAL IMPACT:

The cost of this bill is insufficient to affect contribution rates.

AN ACT Relating to allowing a member holding state elective office the option during each term of office of membership or retirement and beginning their retirement allowance in the law enforcement officers' and fire fighters' retirement system, the teachers' retirement system, the school employees' retirement system, and the public employees' retirement system; and amending RCW 41.26.030, 41.32.010, 41.32.263, 41.35.030, and 41.40.023.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.26.030 and 2003 c 388 s 2 are each amended to read as follows:

As used in this chapter, unless a different meaning is plainly required by the context:

(1) "Retirement system" means the "Washington law enforcement officers' and fire fighters' retirement system" provided herein.

(2)(a) "Employer" for plan 1 members, means the legislative authority of any city, town, county, or district or the elected officials of any municipal corporation that employs any law enforcement officer and/or fire fighter, any authorized association of such municipalities, and, except for the purposes of RCW 41.26.150, any labor guild, association, or organization, which represents the fire fighters or law enforcement officers of at least seven cities of over 20,000 population and the membership of each local lodge or division of which is composed of at least sixty percent law enforcement officers or fire fighters as defined in this chapter.

(b) "Employer" for plan 2 members, means the following entities to the extent that the entity employs any law enforcement officer and/or fire fighter:

(i) The legislative authority of any city, town, county, or district;

(ii) The elected officials of any municipal corporation;

(iii) The governing body of any other general authority law enforcement agency; or

(iv) A four-year institution of higher education having a fully operational fire department as of January 1, 1996.

(3) "Law enforcement officer" beginning January 1, 1994, means any person who is commissioned and employed by an employer on a full time, fully compensated basis to enforce the criminal laws of the state of Washington generally, with the following qualifications:

(a) No person who is serving in a position that is basically clerical or secretarial in nature, and who is not commissioned shall be considered a law enforcement officer;

(b) Only those deputy sheriffs, including those serving under a different title pursuant to county charter, who have successfully completed a civil service examination for deputy sheriff or the equivalent position, where a different title is used, and those persons serving in unclassified positions authorized by RCW 41.14.070 except a private secretary will be considered law enforcement officers;

(c) Only such full time commissioned law enforcement personnel as have been appointed to offices, positions, or ranks in the police department which have been specifically created or otherwise expressly provided for and designated by city charter provision or by ordinance enacted by the legislative body of the city shall be considered city police officers;

(d) The term "law enforcement officer" also includes the executive secretary of a labor guild, association or organization (which is an employer under RCW 41.26.030(2)) if that individual has five years previous membership in the retirement system established in chapter 41.20 RCW. The provisions of this subsection (3)(d) shall not apply to plan 2 members; and

(e) The term "law enforcement officer" also includes a person employed on or after January 1, 1993, as a public safety officer or director of public safety, so long as the job duties substantially involve only either police or fire duties, or both, and no other duties in a city or town with a population of less than ten thousand. The provisions of this subsection (3)(e) shall not apply to any public safety officer or director of public safety who is receiving a retirement allowance under this chapter as of May 12, 1993.

(4) "Fire fighter" means:

(a) Any person who is serving on a full time, fully compensated basis as a member of a fire department of an employer and who is serving in a position which requires passing a civil service examination for fire fighter, and who is actively employed as such;

(b) Anyone who is actively employed as a full time fire fighter where the fire department does not have a civil service examination;

(c) Supervisory fire fighter personnel;

(d) Any full time executive secretary of an association of fire protection districts authorized under RCW 52.12.031. The provisions of this subsection (4)(d) shall not apply to plan 2 members;

(e) The executive secretary of a labor guild, association or organization (which is an employer under RCW 41.26.030(2) as now or hereafter amended), if such individual has five years previous membership in a retirement system established in chapter 41.16 or 41.18 RCW. The provisions of this subsection (4)(e) shall not apply to plan 2 members;

(f) Any person who is serving on a full time, fully compensated basis for an employer, as a fire dispatcher, in a department in which, on March 1, 1970, a dispatcher was required to have passed a civil service examination for fire fighter; and

(g) Any person who on March 1, 1970, was employed on a full time, fully compensated basis by an employer, and who on May 21, 1971, was making retirement contributions under the provisions of chapter 41.16 or 41.18 RCW.

(5) "Department" means the department of retirement systems created in chapter 41.50 RCW.

(6) "Surviving spouse" means the surviving widow or widower of a member. "Surviving spouse" shall not include the divorced spouse of a member except as provided in RCW 41.26.162.

(7)(a) "Child" or "children" means an unmarried person who is under the age of eighteen or mentally or physically handicapped as determined by the department, except a handicapped person in the full time care of a state institution, who is:

(i) A natural born child;

(ii) A stepchild where that relationship was in existence prior to the date benefits are payable under this chapter;

(iii) A posthumous child;

(iv) A child legally adopted or made a legal ward of a member prior to the date benefits are payable under this chapter; or

(v) An illegitimate child legitimized prior to the date any benefits are payable under this chapter.

(b) A person shall also be deemed to be a child up to and including the age of twenty years and eleven months while attending any high school, college, or vocational or other educational institution accredited, licensed, or approved by the state, in which it is located, including the summer vacation months and all other normal and regular vacation periods at the particular educational institution after which the child returns to school.

(8) "Member" means any fire fighter, law enforcement officer, or other person as would apply under subsections (3) or (4) of this section whose membership is transferred to the Washington law enforcement officers' and fire fighters' retirement system on or after March 1, 1970, and every law enforcement officer and fire fighter who is employed in that capacity on or after such date.

(9) "Retirement fund" means the "Washington law enforcement officers' and fire fighters' retirement system fund" as provided for herein.

(10) "Employee" means any law enforcement officer or fire fighter as defined in subsections (3) and (4) of this section.

(11)(a) "Beneficiary" for plan 1 members, means any person in receipt of a retirement allowance, disability allowance, death benefit, or any other benefit described herein.

(b) "Beneficiary" for plan 2 members, means any person in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by another person.

(12)(a) "Final average salary" for plan 1 members, means (i) for a member holding the same position or rank for a minimum of twelve months preceding the date of retirement, the basic salary attached to such same position or rank at time of retirement; (ii) for any other member, including a civil service member who has not served a minimum of twelve months in the same position or rank preceding the date of retirement, the average of the greatest basic salaries payable to such member during any consecutive twenty-four month period within such member's last ten years of service for which service credit is allowed, computed by dividing the total basic salaries payable to such member during the selected twenty-four month period by twenty-four; (iii) in the case of disability of any member, the basic salary payable to such member at the time of disability retirement; (iv) in the case of a member who hereafter vests pursuant to RCW 41.26.090, the basic salary payable to such member at the time of vesting.

(b) "Final average salary" for plan 2 members, means the monthly average of the member's basic salary for the highest consecutive sixty service credit months of service prior to such member's retirement, termination, or death. Periods constituting authorized unpaid leaves of absence may not be used in the calculation of final average salary.

(13)(a) "Basic salary" for plan 1 members, means the basic monthly rate of salary or wages, including longevity pay but not including overtime earnings or special salary or wages, upon which pension or retirement benefits will be computed and upon which employer contributions and salary deductions will be based.

(b) "Basic salary" for plan 2 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay. In any year in which a member serves in the legislature the member shall have the option of having such member's basic salary be the greater of:

(i) The basic salary the member would have received had such member not served in the legislature; or

(ii) Such member's actual basic salary received for nonlegislative public employment and legislative service combined. Any additional contributions to the retirement system required because basic salary under (b)(i) of this subsection is greater than basic salary under (b)(ii) of this subsection shall be paid by the member for both member and employer contributions.

(14)(a) "Service" for plan 1 members, means all periods of employment for an employer as a fire fighter or law enforcement officer, for which compensation is paid, together with periods of suspension not exceeding thirty days in duration. For the purposes of this chapter service shall also include service in the armed forces of the United States as provided in RCW 41.26.190. Credit shall be allowed for all service credit months of service rendered by a member from and after the member's initial commencement of employment as a fire fighter or law enforcement officer, during which the member worked for seventy or more hours, or was on disability leave or disability retirement. Only service credit months of service shall be counted in the computation of any retirement allowance or other benefit provided for in this chapter.

(i) For members retiring after May 21, 1971 who were employed under the coverage of a prior pension act before March 1, 1970, "service" shall also include (A) such military service not exceeding five years as was creditable to the member as of March 1, 1970, under the member's particular prior pension act, and (B) such other periods of service as were then creditable to a particular member under the provisions of RCW 41.18.165, 41.20.160 or 41.20.170. However, in no event shall credit be allowed for any service rendered prior to March 1, 1970, where the member at the time of rendition of such service was employed in a position covered by a prior pension act, unless such service, at the time credit is claimed therefor, is also creditable under the provisions of such prior act.

(ii) A member who is employed by two employers at the same time shall only be credited with service to one such employer for any month during which the member rendered such dual service.

(b) "Service" for plan 2 members, means periods of employment by a member for one or more employers for which basic salary is earned for ninety or more hours per calendar month which shall constitute a service credit month. Periods of employment by a member for one or more employers for which basic salary is earned for at least seventy hours but less than ninety hours per calendar month shall constitute one-half service credit month. Periods of employment by a member for one or more employers for which basic salary is earned for less than seventy hours shall constitute a one-quarter service credit month.

Members of the retirement system who are elected or appointed to a state elective position may elect during a ninety-day period at the beginning of each term of office to continue ((~~to be members of this retirement system~~)), resume, or to end membership in the retirement system and if otherwise eligible begin their retirement allowance. A state elected official who chooses to end membership at the beginning of a term of office and begin their retirement allowance shall neither make contributions nor earn service credit for the duration of that term.

Service credit years of service shall be determined by dividing the total number of service credit months of service by twelve. Any fraction of a service credit year of service as so determined shall be taken into account in the computation of such retirement allowance or benefits.

If a member receives basic salary from two or more employers during any calendar month, the individual shall receive one service credit month's service credit during any calendar month in which multiple service for ninety or more hours is rendered; or one-half service credit month's service credit during any calendar month in which multiple service for at least seventy hours but less than ninety hours is rendered; or one-quarter service credit month during any calendar month in which multiple service for less than seventy hours is rendered.

(15) "Accumulated contributions" means the employee's contributions made by a member, including any amount paid under RCW 41.50.165(2), plus accrued interest credited thereon.

(16) "Actuarial reserve" means a method of financing a pension or retirement plan wherein reserves are accumulated as the liabilities for benefit payments are incurred in order that sufficient funds will be available on the date of retirement of each member to pay the member's future benefits during the period of retirement.

(17) "Actuarial valuation" means a mathematical determination of the financial condition of a retirement plan. It includes the computation of the present monetary value of benefits payable to present members, and the present monetary value of future employer and employee contributions, giving effect to mortality among active and retired members and also to the rates of disability, retirement, withdrawal from service, salary and interest earned on investments.

(18) "Disability board" for plan 1 members means either the county disability board or the city disability board established in RCW 41.26.110.

(19) "Disability leave" means the period of six months or any portion thereof during which a member is on leave at an allowance equal to the member's full salary prior to the commencement of disability retirement. The definition contained in this subsection shall apply only to plan 1 members.

(20) "Disability retirement" for plan 1 members, means the period following termination of a member's disability leave, during which the member is in receipt of a disability retirement allowance.

(21) "Position" means the employment held at any particular time, which may or may not be the same as civil service rank.

(22) "Medical services" for plan 1 members, shall include the following as minimum services to be provided. Reasonable charges for these services shall be paid in accordance with RCW 41.26.150.

(a) Hospital expenses: These are the charges made by a hospital, in its own behalf, for

(i) Board and room not to exceed semiprivate room rate unless private room is required by the attending physician due to the condition of the patient.

(ii) Necessary hospital services, other than board and room, furnished by the hospital.

(b) Other medical expenses: The following charges are considered "other medical expenses", provided that they have not been considered as "hospital expenses".

(i) The fees of the following:

(A) A physician or surgeon licensed under the provisions of chapter 18.71 RCW;

(B) An osteopathic physician and surgeon licensed under the provisions of chapter 18.57 RCW;

(C) A chiropractor licensed under the provisions of chapter 18.25 RCW.

(ii) The charges of a registered graduate nurse other than a nurse who ordinarily resides in the member's home, or is a member of the family of either the member or the member's spouse.

(iii) The charges for the following medical services and supplies:

(A) Drugs and medicines upon a physician's prescription;

(B) Diagnostic x-ray and laboratory examinations;

(C) X-ray, radium, and radioactive isotopes therapy;

(D) Anesthesia and oxygen;

(E) Rental of iron lung and other durable medical and surgical equipment;

(F) Artificial limbs and eyes, and casts, splints, and trusses;

(G) Professional ambulance service when used to transport the member to or from a hospital when injured by an accident or stricken by a disease;

(H) Dental charges incurred by a member who sustains an accidental injury to his or her teeth and who commences treatment by a legally licensed dentist within ninety days after the accident;

(I) Nursing home confinement or hospital extended care facility;

(J) Physical therapy by a registered physical therapist;

(K) Blood transfusions, including the cost of blood and blood plasma not replaced by voluntary donors;

(L) An optometrist licensed under the provisions of chapter 18.53 RCW.

(23) "Regular interest" means such rate as the director may determine.

(24) "Retiree" for persons who establish membership in the retirement system on or after October 1, 1977, means any member in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by such member.

(25) "Director" means the director of the department.

(26) "State actuary" or "actuary" means the person appointed pursuant to RCW 44.44.010(2).

(27) "State elective position" means any position held by any person elected or appointed to statewide office or elected or appointed as a member of the legislature.

(28) "Plan 1" means the law enforcement officers' and fire fighters' retirement system, plan 1 providing the benefits and funding provisions covering persons who first became members of the system prior to October 1, 1977.

(29) "Plan 2" means the law enforcement officers' and fire fighters' retirement system, plan 2 providing the benefits and funding provisions covering persons who first became members of the system on and after October 1, 1977.

(30) "Service credit year" means an accumulation of months of service credit which is equal to one when divided by twelve.

(31) "Service credit month" means a full service credit month or an accumulation of partial service credit months that are equal to one.

(32) "General authority law enforcement agency" means any agency, department, or division of a municipal corporation, political subdivision, or other unit of local government of this state, and any agency, department, or division of state government, having as its primary function the detection and apprehension of persons committing infractions or violating the traffic or criminal laws in general, but not including the Washington state patrol. Such an agency, department, or division is distinguished from a limited authority law enforcement agency having as one of its functions the apprehension or detection of persons committing infractions or violating the traffic or criminal laws relating to limited subject areas, including but not limited to, the state departments of natural resources and social and health services, the state gambling commission, the state lottery commission, the state parks and recreation commission, the state utilities and transportation commission, the state liquor control board, and the state department of corrections.

Sec. 2. RCW 41.32.010 and 2003 c 31 s 1 are each amended to read as follows:

As used in this chapter, unless a different meaning is plainly required by the context:

(1)(a) "Accumulated contributions" for plan 1 members, means the sum of all regular annuity contributions and, except for the purpose of withdrawal at the time of retirement, any amount paid under RCW 41.50.165(2) with regular interest thereon.

(b) "Accumulated contributions" for plan 2 members, means the sum of all contributions standing to the credit of a member in the member's individual account, including any amount paid under RCW 41.50.165(2), together with the regular interest thereon.

(2) "Actuarial equivalent" means a benefit of equal value when computed upon the basis of such mortality tables and regulations as shall be adopted by the director and regular interest.

(3) "Annuity" means the moneys payable per year during life by reason of accumulated contributions of a member.

(4) "Member reserve" means the fund in which all of the accumulated contributions of members are held.

(5)(a) "Beneficiary" for plan 1 members, means any person in receipt of a retirement allowance or other benefit provided by this chapter.

(b) "Beneficiary" for plan 2 and plan 3 members, means any person in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by another person.

(6) "Contract" means any agreement for service and compensation between a member and an employer.

(7) "Creditable service" means membership service plus prior service for which credit is allowable. This subsection shall apply only to plan 1 members.

(8) "Dependent" means receiving one-half or more of support from a member.

(9) "Disability allowance" means monthly payments during disability. This subsection shall apply only to plan 1 members.

(10)(a) "Earnable compensation" for plan 1 members, means:

(i) All salaries and wages paid by an employer to an employee member of the retirement system for personal services rendered during a fiscal year. In all cases where compensation includes maintenance the employer shall fix the value of that part of the compensation not paid in money.

(ii) For an employee member of the retirement system teaching in an extended school year program, two consecutive extended school years, as defined by the employer school district, may be used as the annual period for determining earnable compensation in lieu of the two fiscal years.

(iii) "Earnable compensation" for plan 1 members also includes the following actual or imputed payments, which are not paid for personal services:

(A) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wages which the individual would have earned during a payroll period shall be considered earnable compensation and the individual shall receive the equivalent service credit.

(B) If a leave of absence, without pay, is taken by a member for the purpose of serving as a member of the state legislature, and such member has served in the legislature five or more years, the salary which would have been received for the position from which the leave of absence was taken shall be considered as compensation earnable if the employee's contribution thereon is paid by the employee. In addition, where a member has been a member of the state legislature for five or more years, earnable compensation for the member's two highest compensated consecutive years of service shall include a sum not to exceed thirty-six hundred dollars for each of such two consecutive years, regardless of whether or not legislative service was rendered during those two years.

(iv) For members employed less than full time under written contract with a school district, or community college district, in an instructional position, for which the member receives service credit of less than one year in all of the years used to determine the earnable compensation used for computing benefits due under RCW 41.32.497, 41.32.498, and 41.32.520, the member may elect to have earnable compensation defined as provided in RCW 41.32.345. For the purposes of this subsection, the term "instructional position" means a position in which more than seventy-five percent of the member's time is spent as a classroom instructor (including office hours), a librarian, or a counselor. Earnable compensation shall be so defined only for the purpose of the calculation of retirement benefits and only as necessary to insure that members who receive fractional service credit under RCW 41.32.270 receive benefits proportional to those received by members who have received full-time service credit.

(v) "Earnable compensation" does not include:

(A) Remuneration for unused sick leave authorized under RCW 41.04.340, 28A.400.210, or 28A.310.490;

(B) Remuneration for unused annual leave in excess of thirty days as authorized by RCW 43.01.044 and 43.01.041.

(b) "Earnable compensation" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

"Earnable compensation" for plan 2 and plan 3 members also includes the following actual or imputed payments which, except in the case of (b)(ii)(B) of this subsection, are not paid for personal services:

(i) Retroactive payments to an individual by an employer on reinstatement of the employee in a position or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wages which the individual would have earned during a payroll period shall be considered earnable compensation, to the extent provided above, and the individual shall receive the equivalent service credit.

(ii) In any year in which a member serves in the legislature the member shall have the option of having such member's earnable compensation be the greater of:

(A) The earnable compensation the member would have received had such member not served in the legislature; or

(B) Such member's actual earnable compensation received for teaching and legislative service combined. Any additional contributions to the retirement system required because compensation earnable under (b)(ii)(A) of this subsection is greater than compensation earnable under (b)(ii)(B) of this subsection shall be paid by the member for both member and employer contributions.

(11) "Employer" means the state of Washington, the school district, or any agency of the state of Washington by which the member is paid.

(12) "Fiscal year" means a year which begins July 1st and ends June 30th of the following year.

(13) "Former state fund" means the state retirement fund in operation for teachers under chapter 187, Laws of 1923, as amended.

(14) "Local fund" means any of the local retirement funds for teachers operated in any school district in accordance with the provisions of chapter 163, Laws of 1917 as amended.

(15) "Member" means any teacher included in the membership of the retirement system. Also, any other employee of the public schools who, on July 1, 1947, had not elected to be exempt from membership and who, prior to that date, had by an authorized payroll deduction, contributed to the member reserve.

(16) "Membership service" means service rendered subsequent to the first day of eligibility of a person to membership in the retirement system: PROVIDED, That where a member is employed by two or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service is rendered. The provisions of this subsection shall apply only to plan 1 members.

(17) "Pension" means the moneys payable per year during life from the pension reserve.

(18) "Pension reserve" is a fund in which shall be accumulated an actuarial reserve adequate to meet present and future pension liabilities of the system and from which all pension obligations are to be paid.

(19) "Prior service" means service rendered prior to the first date of eligibility to membership in the retirement system for which credit is allowable. The provisions of this subsection shall apply only to plan 1 members.

(20) "Prior service contributions" means contributions made by a member to secure credit for prior service. The provisions of this subsection shall apply only to plan 1 members.

(21) "Public school" means any institution or activity operated by the state of Washington or any instrumentality or political subdivision thereof employing teachers, except the University of Washington and Washington State University.

(22) "Regular contributions" means the amounts required to be deducted from the compensation of a member and credited to the member's individual account in the member reserve. This subsection shall apply only to plan 1 members.

(23) "Regular interest" means such rate as the director may determine.

(24)(a) "Retirement allowance" for plan 1 members, means monthly payments based on the sum of annuity and pension, or any optional benefits payable in lieu thereof.

(b) "Retirement allowance" for plan 2 and plan 3 members, means monthly payments to a retiree or beneficiary as provided in this chapter.

(25) "Retirement system" means the Washington state teachers' retirement system.

(26)(a) "Service" for plan 1 members means the time during which a member has been employed by an employer for compensation.

(i) If a member is employed by two or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service is rendered.

(ii) As authorized by RCW 28A.400.300, up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.32.470.

(iii) As authorized in RCW 41.32.065, service earned in an out-of-state retirement system that covers teachers in public schools may be applied solely for the purpose of determining eligibility to retire under RCW 41.32.470.

(b) "Service" for plan 2 and plan 3 members, means periods of employment by a member for one or more employers for which earnable compensation is earned subject to the following conditions:

(i) A member employed in an eligible position or as a substitute shall receive one service credit month for each month of September through August of the following year if he or she earns earnable compensation for eight hundred ten or more hours during that period and is employed during nine of those months, except that a member may not receive credit for any period prior to the member's employment in an eligible position except as provided in RCW 41.32.812 and 41.50.132;

(ii) If a member is employed either in an eligible position or as a substitute teacher for nine months of the twelve month period between September through August of the following year but earns earnable compensation for less than eight hundred ten hours but for at least six hundred thirty hours, he or she will receive one-half of a service credit month for each month of the twelve month period;

(iii) All other members in an eligible position or as a substitute teacher shall receive service credit as follows:

(A) A service credit month is earned in those calendar months where earnable compensation is earned for ninety or more hours;

(B) A half-service credit month is earned in those calendar months where earnable compensation is earned for at least seventy hours but less than ninety hours; and

(C) A quarter-service credit month is earned in those calendar months where earnable compensation is earned for less than seventy hours((~~.~~));

(iv) Any person who is a member of the teachers' retirement system and who is elected or appointed to a state elective position may continue to be a member of the retirement system and continue to receive a service credit month for each of the months in a state elective position by making the required member contributions((~~.~~));

(v) Any person who is a member of the teachers' retirement system plan 2 or plan 3 and who is elected or appointed to a state elective position has the option during a ninety-day period at the beginning of each term of office either to resume membership or to end membership in the retirement system and if otherwise eligible begin their retirement allowance. A state elected official who chooses to end membership at the beginning of a term of office and begin their retirement allowance shall neither make contributions nor earn service credit for the duration of that term;

(vi) When an individual is employed by two or more employers the individual shall only receive one month's service credit during any calendar month in which multiple service for ninety or more hours is rendered((~~.~~));

((~~(vi)~~)) (vii) As authorized by RCW 28A.400.300, up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.32.470. For purposes of plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is equal to two service credit months. Use of less than forty-five days of sick leave is creditable as allowed under this subsection as follows:

(A) Less than eleven days equals one-quarter service credit month;

(B) Eleven or more days but less than twenty-two days equals one-half service credit month;

(C) Twenty-two days equals one service credit month;

(D) More than twenty-two days but less than thirty-three days equals one and one-quarter service credit month; and

(E) Thirty-three or more days but less than forty-five days equals one and one-half service credit month((~~.~~));

((~~(vii)~~)) (viii) As authorized in RCW 41.32.065, service earned in an out-of-state retirement system that covers teachers in public schools may be applied solely for the purpose of determining eligibility to retire under RCW 41.32.470((~~.~~));

((~~(viii)~~)) (ix) The department shall adopt rules implementing this subsection.

(27) "Service credit year" means an accumulation of months of service credit which is equal to one when divided by twelve.

(28) "Service credit month" means a full service credit month or an accumulation of partial service credit months that are equal to one.

(29) "Teacher" means any person qualified to teach who is engaged by a public school in an instructional, administrative, or supervisory capacity. The term includes state, educational service district, and school district superintendents and their assistants and all employees certificated by the superintendent of public instruction; and in addition thereto any full time school doctor who is employed by a public school and renders service of an instructional or educational nature.

(30) "Average final compensation" for plan 2 and plan 3 members, means the member's average earnable compensation of the highest consecutive sixty service credit months prior to such member's retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under RCW 41.32.810(2).

(31) "Retiree" means any person who has begun accruing a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer while a member.

(32) "Department" means the department of retirement systems created in chapter 41.50 RCW.

(33) "Director" means the director of the department.

(34) "State elective position" means any position held by any person elected or appointed to statewide office or elected or appointed as a member of the legislature.

(35) "State actuary" or "actuary" means the person appointed pursuant to RCW 44.44.010(2).

(36) "Substitute teacher" means:

(a) A teacher who is hired by an employer to work as a temporary teacher, except for teachers who are annual contract employees of an employer and are guaranteed a minimum number of hours; or

(b) Teachers who either (i) work in ineligible positions for more than one employer or (ii) work in an ineligible position or positions together with an eligible position.

(37)(a) "Eligible position" for plan 2 members from June 7, 1990, through September 1, 1991, means a position which normally requires two or more uninterrupted months of creditable service during September through August of the following year.

(b) "Eligible position" for plan 2 and plan 3 on and after September 1, 1991, means a position that, as defined by the employer, normally requires five or more months of at least seventy hours of earnable compensation during September through August of the following year.

(c) For purposes of this chapter an employer shall not define "position" in such a manner that an employee's monthly work for that employer is divided into more than one position.

(d) The elected position of the superintendent of public instruction is an eligible position.

(38) "Plan 1" means the teachers' retirement system, plan 1 providing the benefits and funding provisions covering persons who first became members of the system prior to October 1, 1977.

(39) "Plan 2" means the teachers' retirement system, plan 2 providing the benefits and funding provisions covering persons who first became members of the system on and after October 1, 1977, and prior to July 1, 1996.

(40) "Plan 3" means the teachers' retirement system, plan 3 providing the benefits and funding provisions covering persons who first become members of the system on and after July 1, 1996, or who transfer under RCW 41.32.817.

(41) "Index" means, for any calendar year, that year's annual average consumer price index, Seattle, Washington area, for urban wage earners and clerical workers, all items compiled by the bureau of labor statistics, United States department of labor.

(42) "Index A" means the index for the year prior to the determination of a postretirement adjustment.

(43) "Index B" means the index for the year prior to index A.

(44) "Index year" means the earliest calendar year in which the index is more than sixty percent of index A.

(45) "Adjustment ratio" means the value of index A divided by index B.

(46) "Annual increase" means, initially, fifty-nine cents per month per year of service which amount shall be increased each July 1st by three percent, rounded to the nearest cent.

(47) "Member account" or "member's account" for purposes of plan 3 means the sum of the contributions and earnings on behalf of the member in the defined contribution portion of plan 3.

(48) "Separation from service or employment" occurs when a person has terminated all employment with an employer.

(49) "Employed" or "employee" means a person who is providing services for compensation to an employer, unless the person is free from the employer's direction and control over the performance of work. The department shall adopt rules and interpret this subsection consistent with common law.

Sec. 3. RCW 41.32.263 and 1991 c 35 s 41 are each amended to read as follows:

A member of the retirement system who is a member of the state legislature or a state official eligible for the combined pension and annuity provided by RCW 41.32.497, or 41.32.498, as now or hereafter amended shall have deductions taken from his or her salary in the amount of seven and one-half percent of earnable compensation and that service credit shall be established with the retirement system while such deductions are reported to the retirement system, unless he or she has by reason of his or her employment become a contributing member of another public retirement system in the state of Washington. Such elected official who has retired or otherwise terminated his or her public school service may then elect to terminate his or her membership in the retirement system and receive retirement benefits while continuing to serve as an elected official. A member of the retirement system who had previous service as an elected or appointed official, for which he or she did not contribute to the retirement system, may receive credit for such legislative service unless he or she has received credit for that service in another state retirement system, upon making contributions in such amounts as shall be determined by the ((~~board of trustees~~)) director.

Sec. 4. RCW 41.35.030 and 2003 c 157 s 2 are each amended to read as follows:

Membership in the retirement system shall consist of all regularly compensated classified employees and appointive and elective officials of employers, as defined in this chapter, with the following exceptions:

(1) Persons in ineligible positions;

(2)(a) Persons holding elective offices or persons appointed directly by the governor: PROVIDED, That such persons shall have the option of applying for membership during such periods of employment: AND PROVIDED FURTHER, That any persons holding or who have held elective offices or persons appointed by the governor who are members in the retirement system and who have, prior to becoming such members, previously held an elective office, and did not at the start of such initial or successive terms of office exercise their option to become members, may apply for membership to be effective during such term or terms of office, and shall be allowed to establish the service credit applicable to such term or terms of office upon payment of the employee contributions therefor by the employee with interest as determined by the director and employer contributions therefor by the employer or employee with interest as determined by the director: AND PROVIDED FURTHER, That all contributions with interest submitted by the employee under this subsection shall be placed in the employee's individual account in the employee's savings fund and be treated as any other contribution made by the employee, with the exception that any contributions submitted by the employee in payment of the employer's obligation, together with the interest the director may apply to the employer's contribution, shall not be considered part of the member's annuity for any purpose except withdrawal of contributions;

(b) A member holding elective office who has elected to apply for membership pursuant to (a) of this subsection and who later wishes to be eligible for a retirement allowance shall have the option of ending his or her membership in the retirement system. A member wishing to end his or her membership under this subsection must file on a form supplied by the department a statement indicating that the member agrees to irrevocably abandon any claim for service for future periods served as an elected official. <u>Except for members in state elective positions, a</u> member who receives more than fifteen thousand dollars per year in compensation for his or her elective service, adjusted annually for inflation by the director, is not eligible for the option provided by this subsection (2)(b)<u>. A member in a state elective position may apply to end his or her membership and be eligible for a retirement allowance during a ninety-day period at the beginning of each term of office regardless of the compensation they receive for elective service</u>;

(3) Retirement system retirees: PROVIDED, That following reemployment in an eligible position, a retiree may elect to prospectively become a member of the retirement system if otherwise eligible;

(4) Persons enrolled in state-approved apprenticeship programs, authorized under chapter 49.04 RCW, and who are employed by employers to earn hours to complete such apprenticeship programs, if the employee is a member of a union-sponsored retirement plan and is making contributions to such a retirement plan or if the employee is a member of a Taft-Hartley retirement plan;

(5) Persons rendering professional services to an employer on a fee, retainer, or contract basis or when the income from these services is less than fifty percent of the gross income received from the person's practice of a profession;

(6) Substitute employees, except for the purposes of the purchase of service credit under rcw 41.35.033. Upon the return or termination of the absent employee a substitute employee is replacing, that substitute employee shall no longer be ineligible under this subsection;

(7) Employees who (a) are not citizens of the United States, (b) do not reside in the United States, and (c) perform duties outside of the United States;

(8) Employees who (a) are not citizens of the United States, (b) are not covered by chapter 41.48 RCW, (c) are not excluded from membership under this chapter or chapter 41.04 RCW, (d) are residents

of this state, and (e) make an irrevocable election to be excluded from membership, in writing, which is submitted to the director within thirty days after employment in an eligible position;

(9) Employees who are citizens of the United States and who reside and perform duties for an employer outside of the United States: PROVIDED, That unless otherwise excluded under this chapter or chapter 41.04 RCW, the employee may apply for membership (a) within thirty days after employment in an eligible position and membership service credit shall be granted from the first day of membership service, and (b) after this thirty-day period, but membership service credit shall be granted only if payment is made for the noncredited membership service under RCW 41.50.165(2), otherwise service shall be from the date of application.

Sec. 5. RCW 41.40.023 and 2001 c 37 s 1 are each amended to read as follows:

Membership in the retirement system shall consist of all regularly compensated employees and appointive and elective officials of employers, as defined in this chapter, with the following exceptions:

(1) Persons in ineligible positions;

(2) Employees of the legislature except the officers thereof elected by the members of the senate and the house and legislative committees, unless membership of such employees be authorized by the said committee;

(3)(a) Persons holding elective offices or persons appointed directly by the governor: PROVIDED, That such persons shall have the option of applying for membership during such periods of employment: AND PROVIDED FURTHER, That any persons holding or who have held elective offices or persons appointed by the governor who are members in the retirement system and who have, prior to becoming such members, previously held an elective office, and did not at the start of such initial or successive terms of office exercise their option to become members, may apply for membership to be effective during such term or terms of office, and shall be allowed to establish the service credit applicable to such term or terms of office upon payment of the employee contributions therefor by the employee with interest as determined by the director and employer contributions therefor by the employer or employee with interest as determined by the director: AND PROVIDED

FURTHER, That all contributions with interest submitted by the employee under this subsection shall be placed in the employee's individual account in the employee's savings fund and be treated as any other contribution made by the employee, with the exception that any contributions submitted by the employee in payment of the employer's obligation, together with the interest the director may apply to the employer's contribution, shall not be considered part of the member's annuity for any purpose except withdrawal of contributions;

(b) A member holding elective office who has elected to apply for membership pursuant to (a) of this subsection and who later wishes to be eligible for a retirement allowance shall have the option of ending his or her membership in the retirement system. A member wishing to end his or her membership under this subsection must file, on a form supplied by the department, a statement indicating that the member agrees to irrevocably abandon any claim for service for future periods served as an elected official. Except for members in state elective positions, a member who receives more than fifteen thousand dollars per year in compensation for his or her elective service, adjusted annually for inflation by the director, is not eligible for the option provided by this subsection (3)(b). A member in a state elective position may apply to end his or her membership and be eligible for a retirement allowance during a ninety-day period at the beginning of each term of office regardless of the compensation they receive for elective service;

(4) Employees holding membership in, or receiving pension benefits under, any retirement plan operated wholly or in part by an agency of the state or political subdivision thereof, or who are by reason of their current employment contributing to or otherwise establishing the right to receive benefits from any such retirement plan except as follows:

(a) In any case where the retirement system has in existence an agreement with another retirement system in connection with exchange of service credit or an agreement whereby members can retain service credit in more than one system, such an employee shall be allowed membership rights should the agreement so provide;

(b) An employee shall be allowed membership if otherwise eligible while receiving survivor's benefits;

(c) An employee shall not either before or after June 7, 1984, be excluded from membership or denied service credit pursuant to this subsection solely on account of: (i) Membership in the plan created under chapter 2.14 RCW; or (ii) enrollment under the relief and compensation provisions or the pension provisions of the volunteer fire fighters' relief and pension fund under chapter 41.24 RCW;

(d) Except as provided in RCW 41.40.109, on or after July 25, 1999, an employee shall not be excluded from membership or denied service credit pursuant to this subsection solely on account of participation in a defined contribution pension plan qualified under section 401 of the internal revenue code;

(e) Employees who have been reported in the retirement system prior to July 25, 1999, and who participated during the same period of time in a defined contribution pension plan qualified under section 401 of the internal revenue code and operated wholly or in part by the employer, shall not be excluded from previous retirement system membership and service credit on account of such participation;

(5) Patient and inmate help in state charitable, penal, and correctional institutions;

(6) "Members" of a state veterans' home or state soldiers' home;

(7) Persons employed by an institution of higher learning or community college, primarily as an incident to and in furtherance of their education or training, or the education or training of a spouse;

(8) Employees of an institution of higher learning or community college during the period of service necessary to establish eligibility for membership in the retirement plans operated by such institutions;

(9) Persons rendering professional services to an employer on a fee, retainer, or contract basis or when the income from these services is less than fifty percent of the gross income received from the person's practice of a profession;

(10) Persons appointed after April 1, 1963, by the liquor control board as agency vendors;

(11) Employees of a labor guild, association, or organization: PROVIDED, That elective officials and employees of a labor guild, association, or organization which qualifies as an employer within this chapter shall have the option of applying for membership;

(12) Retirement system retirees: PROVIDED, That following

reemployment in an eligible position, a retiree may elect to prospectively become a member of the retirement system if otherwise eligible;

(13) Persons employed by or appointed or elected as an official of a first class city that has its own retirement system: PROVIDED, That any member elected or appointed to an elective office on or after April 1, 1971, shall have the option of continuing as a member of this system in lieu of becoming a member of the city system. A member who elects to continue as a member of this system shall pay the appropriate member contributions and the city shall pay the employer contributions at the rates prescribed by this chapter. The city shall also transfer to this system all of such member's accumulated contributions together with such further amounts as necessary to equal all employee and employer contributions which would have been paid into this system on account of such service with the city and thereupon the member shall be granted credit for all such service. Any city that becomes an employer as defined in RCW 41.40.010(4) as the result of an individual's election under this subsection shall not be required to have all employees covered for retirement under the provisions of this chapter. Nothing in this subsection shall prohibit a city of the first class with its own retirement system from: (a) Transferring all of its current employees to the retirement system established under this chapter, or (b) allowing newly hired employees the option of continuing coverage under the retirement system established by this chapter.

Notwithstanding any other provision of this chapter, persons transferring from employment with a first class city of over four hundred thousand population that has its own retirement system to employment with the state department of agriculture may elect to remain within the retirement system of such city and the state shall pay the employer contributions for such persons at like rates as prescribed for employers of other members of such system;

(14) Employees who (a) are not citizens of the United States, (b) do not reside in the United States, and (c) perform duties outside of the United States;

(15) Employees who (a) are not citizens of the United States, (b) are not covered by chapter 41.48 RCW, (c) are not excluded from membership under this chapter or chapter 41.04 RCW, (d) are residents

of this state, and (e) make an irrevocable election to be excluded from membership, in writing, which is submitted to the director within thirty days after employment in an eligible position;

(16) Employees who are citizens of the United States and who reside and perform duties for an employer outside of the United States: PROVIDED, That unless otherwise excluded under this chapter or chapter 41.04 RCW, the employee may apply for membership (a) within thirty days after employment in an eligible position and membership service credit shall be granted from the first day of membership service, and (b) after this thirty-day period, but membership service credit shall be granted only if payment is made for the noncredited membership service under RCW 41.50.165(2), otherwise service shall be from the date of application;

(17) The city manager or chief administrative officer of a city or town, other than a retiree, who serves at the pleasure of an appointing authority: PROVIDED, That such persons shall have the option of applying for membership within thirty days from date of their appointment to such positions. Persons serving in such positions as of April 4, 1986, shall continue to be members in the retirement system unless they notify the director in writing prior to December 31, 1986, of their desire to withdraw from membership in the retirement system. A member who withdraws from membership in the system under this section shall receive a refund of the member's accumulated contributions.

Persons serving in such positions who have not opted for membership within the specified thirty days, may do so by paying the amount required under RCW 41.50.165(2) for the period from the date of their appointment to the date of acceptance into membership;

(18) Persons serving as: (a) The chief administrative officer of a public utility district as defined in RCW 54.16.100; (b) the chief administrative officer of a port district formed under chapter 53.04 RCW; or (c) the chief administrative officer of a county who serves at the pleasure of an appointing authority: PROVIDED, That such persons shall have the option of applying for membership within thirty days from the date of their appointment to such positions. Persons serving in such positions as of July 25, 1999, shall continue to be members in the retirement system unless they notify the director in writing prior to December 31, 1999, of their desire to withdraw from membership in the retirement system. A member who withdraws from membership in the

system under this section shall receive a refund of the member's accumulated contributions upon termination of employment or as otherwise consistent with the plan's tax qualification status as defined in internal revenue code section 401.

Persons serving in such positions who have not opted for membership within the specified thirty days, may do so at a later date by paying the amount required under RCW 41.50.165(2) for the period from the date of their appointment to the date of acceptance into membership;

(19) Persons enrolled in state-approved apprenticeship programs, authorized under chapter 49.04 RCW, and who are employed by local governments to earn hours to complete such apprenticeship programs, if the employee is a member of a union-sponsored retirement plan and is making contributions to such a retirement plan or if the employee is a member of a Taft-Hartley retirement plan;

(20) Beginning on July 22, 2001, persons employed exclusively as trainers or trainees in resident apprentice training programs operated by housing authorities authorized under chapter 35.82 RCW, (a) if the trainer or trainee is a member of a union-sponsored retirement plan and is making contributions to such a retirement plan or (b) if the employee is a member of a Taft-Hartley retirement plan.

--- END ---

Part-Time Educational Staff Associates (ESAs)

Background

Current TRS 1 statutes allow less-than-full-time members who spend more than seventy-five percent of their time as classroom instructors, librarians, or counselors to annualize their salaries upon retirement so as to receive proportionate retirement benefits. School Counselors are Certified ESAs, and are the only category of ESAs allowed to annualize their salaries in the same manner as teachers and librarians. Other categories of ESAs include Psychologists, Social Workers, Nurses, Physical Therapists, Occupational Therapists and Speech Language Pathologists or Audiologists. None of these latter categories are currently allowed to annualize their salaries in order to receive proportionate retirement benefits for less-than-full-time service.

Committee Activity

Presentation:
November 18, 2003 – Executive Committee Meeting
December 16, 2003 – Full Committee Meeting

Proposal Approved:
December 16, 2003 – Full Committee Meeting

Recommendation to Legislature

Permit all part-time ESAs in TRS 1 to annualize their salaries in order to receive proportionate retirement benefits for less-than-full-time service.

Staff Contact

Laura Harper – 360-586-7616 – harper_la@leg.wa.gov

Part-time Education Staff Associates

(December 10, 2003)

Issue

Allow Certified Educational Staff Associates (ESAs) in the Teachers Retirement System (TRS) Plan 1 to annualize their salaries when calculating their average final compensation so they may receive proportionate retirement benefits.

Staff

Laura Harper, (360) 586-7616

Members Impacted

This proposal impacts 41 part-time ESAs in TRS Plan 1.

Current Situation

Current TRS 1 statutes allow less-than-full-time members who spend more than seventy-five percent of their time as classroom instructors, librarians, or counselors to annualize their salaries upon retirement so as to receive proportionate retirement benefits. School Counselors are Certified ESAs, and are the only category of ESAs allowed to annualize their salaries in the same manner as teachers and librarians. Other categories of ESAs include Psychologists, Social Workers, Nurses, Physical Therapists, Occupational Therapists and Speech Language Pathologists or Audiologists. None of these latter categories are currently allowed to annualize their salaries in order to receive proportionate retirement benefits for less-than-full-time service.

History

There is no legislative history on this item. This proposal was introduced to the Joint Committee on Pension Policy by correspondence from the Chair of the Professional Educator Standards

Board dated October 29, 2002. The Joint Committee deferred consideration of this matter until 2003.

Example

Under current law an ESA who is not a counselor and who works half time for 30 years receives half the retirement benefit of a counselor despite making the same salary and contributions.

	Full-Time ESA	Half-Time Counselor	Half-Time Nurse
Salary	$50,000	$25,000	$25,000
Annual Contributions	$3,000	$1,500	$1,500
Retirement Benefit	$30,000	**$15,000**	**$7,500**

Policy Analysis

There are seven Educational Staff Associate (ESA) positions employed by school districts: School Counselor, Psychologist, Social Worker, Nurse, Physical Therapist, Occupational Therapist, and Speech Language Pathologist or Audiologist. As in the case of teachers, those engaged in these activities must be certified.

According to the Superintendent of Public Instruction, the educational standards and certification course for these positions may be more rigorous than that of teachers. Counselors, psychologists, social workers and speech language pathologists/audiologists all require a Master's degree plus passage of a state-approved 30-hour certification course. Occupational therapists, physical therapists, and nurses require a Bachelor's degree plus the same 30-hour certification course.

The Legislative Evaluation and Accountability Program (LEAP) quantifies the education and training requirements for these positions in what is called a **mix factor.** A position with a mix factor of 1 requires a Bachelor's degree and no experience. In the latest School District Personnel Summary Profiles for the 2002-2003 school year, the mix factors for ESAs averaged 1.67 while the mix factor for teachers averaged 1.58.

Stakeholder Input

See attachment from Professional Educator Standards Board dated October 29, 2002.

Options

Only one option is proposed: to allow all currently excluded part-time ESAs in TRS 1 to annualize their salaries for determining their average final compensation and thus receive proportionate retirement benefits.

Administrative Impact (DRS)

Input requested.

Executive Committee Recommendation

On November 18, 2003, this matter was recommended for consideration by the Select Committee on Pension Policy.

Bill Draft

See attachment.

Fiscal Note (Draft)

See attachment.

STATE OF WASHINGTON

PROFESSIONAL EDUCATOR STANDARDS BOARD

Old Capitol Building, P.O. Box 47236 • Olympia, WA 98504-7236 • (360) 725-6275 • Fax (360) 586-4548
www.pesb.wa.gov

October 29, 2002

The Honorable Don Carlson
Washington State Senator
Chair, Joint Committee on Pension Policy
P. O. Box 40449
Olympia, WA 98504-0449

Dear Senator Carlson:

According to RCW 41.32.010, public school district or community college employees in an instructional position employed less than full-time and participating in the Teachers' Retirement System (TRS) may elect to have earnable compensation defined as the compensation the member would have received in the same position if employed on a regular full-time basis for the same contract period. This is for the purpose of calculating retirement benefits to ensure that members who receive fractional service credit under RCW 41.32.270 receive benefits proportional to those received by members who have received full-time service credit. The RCW defines "instructional position", however, as a position in which more than seventy-five percent of the member's time is spent as a classroom instructor, (including office hours), a librarian, or a school counselor. ESAs typically spend more than 75% of their day in direct contact with students, just not as "classroom instructors" as required by the current statute.

The Professional Educator Standards Board advises state policymakers on issues affecting certified Washington educators, including certified educational staff associates (ESAs). Through our work we've become keenly aware of the crucial role all ESAs play in supporting student learning. In addition to the role of school counselors referenced in RCW 41.32, certified ESAs also include school psychologists, social workers, speech and language pathologists, audiologists, school nurses, school occupational therapists, and school physical therapists.

More than ever, children arrive at school doors with complex needs that are real barriers to learning. By addressing the physical, emotional, social and educational needs of the whole child, ESAs make it possible for learning to occur. We, along with the Washington Education Association, encourage the Joint Committee on Pension Policy to consider recommending to the legislature a change in current RCW that recognizes the contribution of these ESAs and expands the definition of members eligible for this provision to include all ESAs. We roughly estimate this provision would affect at the most 600 certified Educational Staff Associates, but recognize that the Office of the State Actuary is better positioned to determine the true fiscal impact of this policy change.

We realize, and apologize, that this is quite late in the legislative interim process. We appreciate the workload the JCPP has taken upon itself this interim, and hope that you can find time to address this one small additional issue.

Sincerely,

Carolyn D Bradley

Carolyn Bradley
Chair

cc: Members of the Joint Committee on Pension Policy

FISCAL NOTE – DRAFT

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**12/09/03**	**Z-0933.1/04**

SUMMARY OF BILL:

This bill impacts the Teachers' Retirement System (TRS) Plan 1 by allowing Certified Educational Staff Associates (ESAs) to annualize their salaries when calculating their average final compensation so they may receive proportionate retirement benefits.

Effective Date: 90 days after session

CURRENT SITUATION:

Current TRS 1 statutes allow less-than-full-time members who spend more than seventy-five percent of their time as classroom instructors, librarians or counselors to annualize their salaries upon retirement so as to receive proportionate retirement benefits. School counselors are Certified ESAs, and are the only category of ESAs allowed to annualize their salaries in the same manner as teachers and librarians. Other categories of ESAs (not allowed to annualize their salaries) include Psychologists, Social Workers, Nurses, Physical Therapists and Speech Language Pathologists or Audiologists.

MEMBERS IMPACTED:

We estimate that 41 TRS 1 active members out of the total 12,456 active members of this system would be affected by this bill.

We estimate that for a typical member impacted by this bill, the increase in benefits would be to double their benefit (based on annualizing their pay using their service credit, the actual annualizing method could be different). These 41 members currently have 12.4 years of service and estimated average final compensation of $25,283 and a benefit of $6,275 before this change. After this change their estimated average final compensation would be $46,812 and their current benefit would increase to $11,619

ASSUMPTIONS:

In absence of individual member data we assumed that the member's pay would increase in proportion to their fractional service credit. In other words, a member who currently receives half a year of service credit, would have their average final compensation doubled for this purpose.

FISCAL IMPACT:

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

	Teachers Retirement System Plan 1		
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	$10,209	$2.6	$10,212
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	$586	$2.6	$589
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	$236	$2.1	$238

Increase in Contribution Rates:

Employee	0.0046%
Employer State	0.0046%

Fiscal Budget Determinations:

None. The estimated increase in the required employer contribution rate is less than .005% and therefore will not round up to the minimum increase of .01%.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30,2002 actuarial valuation report of the Teachers' Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following: None.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2003 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:
- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

AN ACT Relating to allowing members of the teachers' retirement system plan 1 who are employed less than full time as psychologists, social workers, nurses, physical therapists, occupational therapists, or speech language pathologists or audiologists to annualize their salaries when calculating their average final compensation; and amending RCW 41.32.010.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.32.010 and 2003 c 31 s 1 are each amended to read as follows:

As used in this chapter, unless a different meaning is plainly required by the context:

(1)(a) "Accumulated contributions" for plan 1 members, means the sum of all regular annuity contributions and, except for the purpose of withdrawal at the time of retirement, any amount paid under RCW 41.50.165(2) with regular interest thereon.

(b) "Accumulated contributions" for plan 2 members, means the sum of all contributions standing to the credit of a member in the member's individual account, including any amount paid under RCW 41.50.165(2), together with the regular interest thereon.

(2) "Actuarial equivalent" means a benefit of equal value when computed upon the basis of such mortality tables and regulations as shall be adopted by the director and regular interest.

(3) "Annuity" means the moneys payable per year during life by reason of accumulated contributions of a member.

(4) "Member reserve" means the fund in which all of the accumulated contributions of members are held.

(5)(a) "Beneficiary" for plan 1 members, means any person in receipt of a retirement allowance or other benefit provided by this chapter.

(b) "Beneficiary" for plan 2 and plan 3 members, means any person in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by another person.

(6) "Contract" means any agreement for service and compensation between a member and an employer.

(7) "Creditable service" means membership service plus prior service for which credit is allowable. This subsection shall apply only to plan 1 members.

(8) "Dependent" means receiving one-half or more of support from a member.

(9) "Disability allowance" means monthly payments during disability. This subsection shall apply only to plan 1 members.

(10)(a) "Earnable compensation" for plan 1 members, means:

(i) All salaries and wages paid by an employer to an employee member of the retirement system for personal services rendered during a fiscal year. In all cases where compensation includes maintenance the employer shall fix the value of that part of the compensation not paid in money.

(ii) For an employee member of the retirement system teaching in an extended school year program, two consecutive extended school years, as defined by the employer school district, may be used as the annual period for determining earnable compensation in lieu of the two fiscal years.

(iii) "Earnable compensation" for plan 1 members also includes the following actual or imputed payments, which are not paid for personal services:

(A) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wages which the individual would have earned during a payroll period shall be considered earnable compensation and the individual shall receive the equivalent service credit.

(B) If a leave of absence, without pay, is taken by a member for the purpose of serving as a member of the state legislature, and such member has served in the legislature five or more years, the salary which would have been received for the position from which the leave of absence was taken shall be considered as compensation earnable if the employee's contribution thereon is paid by the employee. In addition, where a member has been a member of the state legislature for five or more years, earnable compensation for the member's two highest compensated consecutive years of service shall include a sum not to exceed thirty-six hundred dollars for each of such two consecutive years, regardless of whether or not legislative service was rendered during those two years.

(iv) For members employed less than full time under written contract with a school district, or community college district, in an instructional position, for which the member receives service credit of less than one year in all of the years used to determine the earnable compensation used for computing benefits due under RCW 41.32.497, 41.32.498, and 41.32.520, the member may elect to have earnable compensation defined as provided in RCW 41.32.345. For the purposes of this subsection, the term "instructional position" means a position in which more than seventy-five percent of the member's time is spent as a classroom instructor (including office hours), a librarian, a psychologist, a social worker, a nurse, a physical therapist, an occupational therapist, a speech language pathologist or audiologist, or a counselor. Earnable compensation shall be so defined only for the purpose of the calculation of retirement benefits and only as necessary to insure that members who receive fractional service credit under RCW 41.32.270 receive benefits proportional to those received by members who have received full-time service credit.

(v) "Earnable compensation" does not include:

(A) Remuneration for unused sick leave authorized under RCW 41.04.340, 28A.400.210, or 28A.310.490;

(B) Remuneration for unused annual leave in excess of thirty days as authorized by RCW 43.01.044 and 43.01.041.

(b) "Earnable compensation" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

"Earnable compensation" for plan 2 and plan 3 members also includes the following actual or imputed payments which, except in the case of (b)(ii)(B) of this subsection, are not paid for personal services:

(i) Retroactive payments to an individual by an employer on reinstatement of the employee in a position or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wages which the individual would have earned during a payroll period shall be considered earnable compensation, to the extent provided above, and the individual shall receive the equivalent service credit.

(ii) In any year in which a member serves in the legislature the member shall have the option of having such member's earnable compensation be the greater of:

(A) The earnable compensation the member would have received had such member not served in the legislature; or

(B) Such member's actual earnable compensation received for teaching and legislative service combined. Any additional contributions to the retirement system required because compensation earnable under (b)(ii)(A) of this subsection is greater than compensation earnable under (b)(ii)(B) of this subsection shall be paid by the member for both member and employer contributions.

(11) "Employer" means the state of Washington, the school district, or any agency of the state of Washington by which the member is paid.

(12) "Fiscal year" means a year which begins July 1st and ends June 30th of the following year.

(13) "Former state fund" means the state retirement fund in operation for teachers under chapter 187, Laws of 1923, as amended.

(14) "Local fund" means any of the local retirement funds for teachers operated in any school district in accordance with the provisions of chapter 163, Laws of 1917 as amended.

(15) "Member" means any teacher included in the membership of the retirement system. Also, any other employee of the public schools who, on July 1, 1947, had not elected to be exempt from membership and who, prior to that date, had by an authorized payroll deduction, contributed to the member reserve.

(16) "Membership service" means service rendered subsequent to the first day of eligibility of a person to membership in the retirement system: PROVIDED, That where a member is employed by two or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service is rendered. The provisions of this subsection shall apply only to plan 1 members.

(17) "Pension" means the moneys payable per year during life from the pension reserve.

(18) "Pension reserve" is a fund in which shall be accumulated an actuarial reserve adequate to meet present and future pension liabilities of the system and from which all pension obligations are to be paid.

(19) "Prior service" means service rendered prior to the first date of eligibility to membership in the retirement system for which credit is allowable. The provisions of this subsection shall apply only to plan 1 members.

(20) "Prior service contributions" means contributions made by a member to secure credit for prior service. The provisions of this subsection shall apply only to plan 1 members.

(21) "Public school" means any institution or activity operated by the state of Washington or any instrumentality or political subdivision thereof employing teachers, except the University of Washington and Washington State University.

(22) "Regular contributions" means the amounts required to be deducted from the compensation of a member and credited to the member's individual account in the member reserve. This subsection shall apply only to plan 1 members.

(23) "Regular interest" means such rate as the director may determine.

(24)(a) "Retirement allowance" for plan 1 members, means monthly payments based on the sum of annuity and pension, or any optional benefits payable in lieu thereof.

(b) "Retirement allowance" for plan 2 and plan 3 members, means monthly payments to a retiree or beneficiary as provided in this chapter.

(25) "Retirement system" means the Washington state teachers' retirement system.

(26)(a) "Service" for plan 1 members means the time during which a member has been employed by an employer for compensation.

(i) If a member is employed by two or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service is rendered.

(ii) As authorized by RCW 28A.400.300, up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.32.470.

(iii) As authorized in RCW 41.32.065, service earned in an out-of-state retirement system that covers teachers in public schools may be applied solely for the purpose of determining eligibility to retire under RCW 41.32.470.

(b) "Service" for plan 2 and plan 3 members, means periods of employment by a member for one or more employers for which earnable compensation is earned subject to the following conditions:

(i) A member employed in an eligible position or as a substitute shall receive one service credit month for each month of September through August of the following year if he or she earns earnable compensation for eight hundred ten or more hours during that period and is employed during nine of those months, except that a member may not receive credit for any period prior to the member's employment in an eligible position except as provided in RCW 41.32.812 and 41.50.132;

(ii) If a member is employed either in an eligible position or as a substitute teacher for nine months of the twelve month period between September through August of the following year but earns earnable compensation for less than eight hundred ten hours but for at least six hundred thirty hours, he or she will receive one-half of a service credit month for each month of the twelve month period;

(iii) All other members in an eligible position or as a substitute teacher shall receive service credit as follows:

(A) A service credit month is earned in those calendar months where earnable compensation is earned for ninety or more hours;

(B) A half-service credit month is earned in those calendar months where earnable compensation is earned for at least seventy hours but less than ninety hours; and

(C) A quarter-service credit month is earned in those calendar months where earnable compensation is earned for less than seventy hours.

(iv) Any person who is a member of the teachers' retirement system and who is elected or appointed to a state elective position may continue to be a member of the retirement system and continue to receive a service credit month for each of the months in a state elective position by making the required member contributions.

(v) When an individual is employed by two or more employers the individual shall only receive one month's service credit during any calendar month in which multiple service for ninety or more hours is rendered.

(vi) As authorized by RCW 28A.400.300, up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.32.470. For purposes of plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is equal to two service credit months. Use of less than forty-five days of sick leave is creditable as allowed under this subsection as follows:

(A) Less than eleven days equals one-quarter service credit month;

(B) Eleven or more days but less than twenty-two days equals one-half service credit month;

(C) Twenty-two days equals one service credit month;

(D) More than twenty-two days but less than thirty-three days equals one and one-quarter service credit month;

(E) Thirty-three or more days but less than forty-five days equals one and one-half service credit month.

(vii) As authorized in RCW 41.32.065, service earned in an out-of-state retirement system that covers teachers in public schools may be applied solely for the purpose of determining eligibility to retire under RCW 41.32.470.

(viii) The department shall adopt rules implementing this subsection.

(27) "Service credit year" means an accumulation of months of service credit which is equal to one when divided by twelve.

(28) "Service credit month" means a full service credit month or an accumulation of partial service credit months that are equal to one.

(29) "Teacher" means any person qualified to teach who is engaged by a public school in an instructional, administrative, or supervisory capacity. The term includes state, educational service district, and school district superintendents and their assistants and all employees certificated by the superintendent of public instruction; and in addition thereto any full time school doctor who is employed by a public school and renders service of an instructional or educational nature.

(30) "Average final compensation" for plan 2 and plan 3 members, means the member's average earnable compensation of the highest consecutive sixty service credit months prior to such member's retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under RCW 41.32.810(2).

(31) "Retiree" means any person who has begun accruing a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer while a member.

(32) "Department" means the department of retirement systems created in chapter 41.50 RCW.

(33) "Director" means the director of the department.

(34) "State elective position" means any position held by any person elected or appointed to statewide office or elected or appointed as a member of the legislature.

(35) "State actuary" or "actuary" means the person appointed pursuant to RCW 44.44.010(2).

(36) "Substitute teacher" means:

(a) A teacher who is hired by an employer to work as a temporary teacher, except for teachers who are annual contract employees of an employer and are guaranteed a minimum number of hours; or

(b) Teachers who either (i) work in ineligible positions for more than one employer or (ii) work in an ineligible position or positions together with an eligible position.

(37)(a) "Eligible position" for plan 2 members from June 7, 1990, through September 1, 1991, means a position which normally requires two or more uninterrupted months of creditable service during September through August of the following year.

(b) "Eligible position" for plan 2 and plan 3 on and after September 1, 1991, means a position that, as defined by the employer, normally requires five or more months of at least seventy hours of earnable compensation during September through August of the following year.

(c) For purposes of this chapter an employer shall not define "position" in such a manner that an employee's monthly work for that employer is divided into more than one position.

(d) The elected position of the superintendent of public instruction is an eligible position.

(38) "Plan 1" means the teachers' retirement system, plan 1 providing the benefits and funding provisions covering persons who first became members of the system prior to October 1, 1977.

(39) "Plan 2" means the teachers' retirement system, plan 2 providing the benefits and funding provisions covering persons who first became members of the system on and after October 1, 1977, and prior to July 1, 1996.

(40) "Plan 3" means the teachers' retirement system, plan 3 providing the benefits and funding provisions covering persons who first become members of the system on and after July 1, 1996, or who transfer under RCW 41.32.817.

(41) "Index" means, for any calendar year, that year's annual average consumer price index, Seattle, Washington area, for urban wage earners and clerical workers, all items compiled by the bureau of labor statistics, United States department of labor.

(42) "Index A" means the index for the year prior to the determination of a postretirement adjustment.

(43) "Index B" means the index for the year prior to index A.

(44) "Index year" means the earliest calendar year in which the index is more than sixty percent of index A.

(45) "Adjustment ratio" means the value of index A divided by index B.

(46) "Annual increase" means, initially, fifty-nine cents per month

per year of service which amount shall be increased each July 1st by three percent, rounded to the nearest cent.

(47) "Member account" or "member's account" for purposes of plan 3 means the sum of the contributions and earnings on behalf of the member in the defined contribution portion of plan 3.

(48) "Separation from service or employment" occurs when a person has terminated all employment with an employer.

(49) "Employed" or "employee" means a person who is providing services for compensation to an employer, unless the person is free from the employer's direction and control over the performance of work. The department shall adopt rules and interpret this subsection consistent with common law.

--- END ---

Background

There are an estimated 7,200 PERS 2/3 members with public safety law enforcement responsibilities currently employed by the Washington State department of corrections, the Washington State department of parks and recreation, the Washington State gambling commission, the Washington State patrol, the Washington State liquor control board, county corrections departments, and city corrections departments not covered under first class city retirement plans chapter 41.28 RCW.

These public safety employees are currently eligible to receive normal retirement after 5 years of service and attainment of age 65; in Plan 3, it is 10 years of service and attainment of age 65. A Plan 2 member may receive an actuarially reduced early retirement after 20 years of service and attainment of age 55. A member with 30 years of service and age 55 may receive a benefit reduced 3% per year from age 65.

Because these groups do not meet all the statutory criteria for membership in LEOFF 2, any proposed benefit increases would need to come either within the PERS plans or via a separate plan.

Sub-Committee Activity

Presentation:
October 6, 2003, Sub-committee Meeting
November 14, 2003, Sub-committee Meeting
December 12, 2003, Sub-committee Meeting

Committee Activity

Presentation:
December 16, 2003, Full Committee Meeting

Recommendation to Legislature

Establish a public safety retirement plan for those PERS 2/3 members with public safety law enforcement responsibilities, and establish new early retirement buy-down and service credit purchase options for PERS 2/3 and SERS 2/3 members.

Staff Contact

Robert Wm. Baker – 586-9237 – baker_bo@leg.wa.gov

Public Safety Benefits

(December 12, 2003)

Issue

Establishing a public safety retirement plan for those PERS 2/3 members with public safety law enforcement responsibilities, and establishing new benefits for PERS 2/3 members in other public safety high-risk occupations.

Staff

Robert Wm. Baker (360) 586-9237

Members Impacted

There are an estimated 7,200 PERS 2/3 members with public safety law enforcement responsibilities currently employed by the Washington State department of corrections, the Washington State department of parks and recreation, the Washington State gambling commission, the Washington State patrol, the Washington State liquor control board, county corrections departments, and city corrections departments not covered under first class city retirement plans chapter 41.28 RCW.

Those who would qualify for public safety benefits average 41 years of age, 7.8 years of member service, and $41,000 in salary.

Public safety employees with law enforcement responsibilities are city corrections officers, jailers, police support officers, custody officers, and bailiffs; county corrections officers, jailers, custody officers, and sheriffs corrections officers; county probation officers, probation counselors, and court services officers; state correctional officers, correctional sergeants, and community corrections officers; liquor enforcement officers; park rangers; commercial vehicle enforcement officers; and gambling special agents.

There are an additional 500 PERS 2/3 members employed in high-risk positions that involve protecting the public but do not have law enforcement responsibilities. These public safety positions are Commercial Vehicle Officers in the Washington State Patrol Commercial Vehicles Division, Fire Marshals in the State Fire Marshal's Office, and Line Workers at Public Utility Districts.

Current Situation

These public safety employees are currently members of the Public Employees' Retirement System. The eligibility requirement to receive normal retirement in PERS 2 is 5 years of service and attainment of age 65; in Plan 3, it is 10 years of service and attainment of age 65. A Plan 2 member may receive an actuarially reduced early retirement after 20 years of service and attainment of age 55. A member with 30 years of service and age 55 may receive a benefit reduced 3% per year from age 65.

History

Numerous groups with some law enforcement authority have sought membership in the retirement plans for Law Enforcement Officers' and Fire Fighters' (LEOFF). A few of these groups have been successful. Recently Emergency Medical Technicians and Fish and Wildlife enforcement officers have gained membership in LEOFF 2 as they met all statutory criteria for membership. Other groups who have sought membership in LEOFF do not meet these statutory criteria.

At the December 10, 2001 meeting of the Joint Committee on Pension Policy (JCPP), the committee passed a motion to study the issue of "… providing additional public safety benefits to certain members of the Public Employees' Retirement System plans 2 and 3…". The JCPP heard presentations and public testimony on this issue during the June and July 2002 interim hearings. The committee did not forward a recommendation to the full legislature.

Policy Analysis

Inclusion in the Law Enforcement portion of the Law Enforcement Officers' and Fire Fighters' retirement plans requires law enforcement members to be employed by any city, town, county, district, or general authority law enforcement agency; to be commissioned and employed in a full-time, fully compensated basis to enforce the criminal laws of the state of Washington; pass a civil service examination, meet specific medical and health standards, and complete the Criminal Justice Training Commission basic training.

Because those groups proposing enhanced benefits do not meet all the statutory criteria for membership in LEOFF 2, benefit increases need to come either within the PERS plans or via a separate plan.

Options

1. A new benefit tier within PERS with prospective membership
2. A new benefit tier within PERS with retroactive membership
3. A separate plan from PERS with prospective membership
4. A separate plan from PERS with retroactive membership
5. An optional early retirement buy-down program

Estimated Fiscal Impact of Options

See attachment (November 18th subcommittee report).

Subcommittee Recommendations

The PERS Public Safety Benefits Subcommittee recommended option 3 and to draft a bill to create a separate public safety employees' retirement plan with prospective membership. Its benefit design would include:

- Regular retirement at age 65 with 5 years of service
- Unreduced retirement allowance at age 60 with 10 years of service
- 3% early retirement reduction factor (ERF) from age 60 if age 53 with at least 20 years of service
- Current disability benefit with an actuarial equivalent ERF from age 60

Membership would be limited to a statutory list of those PERS Plan 2 and Plan 3 members who have distinct law enforcement responsibilities.

Those responsibilities would include:

- The responsibility to provide public protection of lives and property as a general duty of the job;
- a high degree of physical risk to one's own personal safety;
- authority and power to arrest, conduct criminal investigations, and enforce the criminal laws of the state of Washington;
- passage of a civil service examination or equivalent;
- completion of the Washington criminal justice training commission basic training course or equivalent; and
- the authority to carry a firearm as part of the job.

Public safety members with law enforcement responsibilities would be city corrections officers, jailers, police support officers, custody officers, and bailiffs; county corrections officers, jailers, custody officers, and sheriffs corrections officers; county probation officers, probation counselors, and court services officers; state correctional officers, correctional sergeants, and community corrections officers; liquor enforcement officers; park rangers; commercial vehicle enforcement officers; and gambling special agents.

The PERS Public Safety Subcommittee also recommended option 5, and to draft legislation to create an optional early retirement buy-down program for other public safety employees without law enforcement responsibilities.

Under this program, employee and employer contributions to an eligible defined contribution plan (i.e, 401(k), 401(a), 457, etc.) could be rolled into the PERS 2/3 defined benefit trust fund to purchase a reduced early retirement reduction at the time of retirement. The amount of contributions needed at retirement would vary depending on the member's age of early retirement and the magnitude of the early retirement buy-down.

Administrative Impacts (DRS)

See attachment from John Charles, Director of the Department of Retirement Systems dated December 11.

Bill Drafts

See attachment.

Fiscal Notes (Draft)

See attachment.

Public Safety Subcommittee Report

(November 17, 2003)

The subcommittee identified two categories of PERS Public Safety members, those:

- With law enforcement responsibilities; and
- Those without law enforcement responsibilities.

(1) Members with Law Enforcement Responsibilities

Persons employed full time at any state agency, political subdivision, or unit of local government in the state of Washington directly responsible for protecting the public including, but not limited to the following (estimated counts in parentheses):

- State and county corrections officers (5,500)
- Park rangers (170)
- Liquor control enforcement officers (70)
- Gambling commission enforcement officers (80)

Inclusion in the law enforcement public safety category of PERS 2/3 must include all of the following:

- the responsibility to provide public protection of lives and property as a general duty of the job;
- a high degree of physical risk to one's own personal safety;
- authority and power to arrest, conduct criminal investigations, and enforce the criminal laws of the state of Washington;
- passage of a civil service examination or equivalent;
- completion of the Washington criminal justice training commission basic training course or equivalent; and
- the authority to carry a firearm as part of the job

Proposed Benefit Enhancements (with law enforcement responsibilities)

- Unreduced retirement allowance at age 60 with 5 years of service
- 3% early retirement reduction factor (ERF) from age 60 if age 53 with at least 20 years of service
- Current disability benefit with an actuarial equivalent ERF from age 60

(2) Members without Law Enforcement Responsibilities

Persons employed full time at any state agency, political subdivision, or unit of local government in the state of Washington directly responsible for protecting the public including, but not limited to the following (estimated counts in parentheses):

- Commercial vehicle officers (60)
- State fire marshals (20)
- Public utility district - line workers (400)

Inclusion in the non law enforcement public safety category of PERS 2/3 must include the following:

- the responsibility to provide public protection of lives and property as a general duty of the job; and
- a high degree of physical risk to one's own personal safety.

Proposed Benefit Enhancements (without law enforcement responsibilities)

- Optional early retirement buy-down program

Under this program, employee and employer contributions to a qualified defined contribution plan (i.e, 401(k), 401(a), 457, etc.) could be rolled into the PERS 2/3 defined benefit trust fund to purchase a reduced early retirement reduction at the time of retirement. The amount of contributions needed at retirement would vary depending on the member's age of early retirement and the magnitude of the early retirement buy-down.

(3) Significant Issues to be Resolved

- Past service credit options (prospective service only?)
- Funding policy (type and level of cost sharing; socialize cost within PERS 2/3?)
- Administrative impacts and effective date

(4) Cost Estimates

Cost estimates on four distinct options are provided in the following tables (administrative expenses are not included). The options provided vary depending on the determination of two key parameters: (1) past service credit options and (2) plan model/funding options:

Separate Public Safety Benefit Category Within PERS

	No Past Service	With Past Service
Increase in Employee/Employer Contribution Rates	.04% - .05%	.08% - .11%
Estimated 05-07 Costs **(in millions)**	GF-S = $1.2 - $1.5 Total = $6.7 - $7.6	GF-S = $2.6 - $3.3 Total = $13.5 - $16.8
25 Year Cost **(in millions)**	GF-S = $33.4 - $38.6 Total = $174.7 - $199.4	GF-S = $68.1 - $85.5 Total = $354.7 - $439.4

Separate Public Safety Plan

	No Past Service	With Past Service
Increase in Employee/Employer Contribution Rates	.99% - 1.13%	2.01% - 2.49%
Estimated 05-07 Costs **(in millions)**	GF-S = Unknown* Total = $6.7 - $7.6	GF-S = Unknown* Total = $13.5 - $16.8
25 Year Cost **(in millions)**	GF-S = Unknown* Total = $174.7 - $199.4	GF-S = Unknown* Total = $354.7 - $439.4

* *GF-S percentages for these public safety employers are unknown.*

FISCAL NOTE - DRAFT

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**12/22/03**	**Z-0983.1**

SUMMARY OF BILL:

This bill creates the Public Safety Employees Retirement System (PSERS) Plan 2. Full-time and fully compensated employees in the following job classes are eligible for membership in the new PSERS plan:

- State and county correction officers
- State and local community correction officers
- City correction officers (other than the employees covered under the first-class cities retirement system)
- State park rangers
- Gambling commission enforcement officers
- Liquor control enforcement officers
- Commercial vehicle enforcement officers

Existing members of the Public Employees Retirement System (PERS) plans 2/3, who are in eligible PSERS job classes, would be given the option to transfer to PSERS for prospective service credit only and become dual members in PERS and PSERS. PSERS eligible members who are currently members of PERS Plan 1 would remain in PERS Plan 1.

The plan would provide for a retirement allowance equal to 2% of a member's average final compensation for each year of service credit payable under the following standard retirement options:

- Normal retirement at age 65 with at least 5 years of service credit
- Unreduced retirement at age 60 with at least 10 years of service credit in PSERS
- Early retirement at age 53 with at least 20 years of service credit; retirement allowance reduced by 3% for each year the member retires prior to age 60.
- Disability retirement with at least 10 years of service credit in PSERS; retirement allowance with an actuarial reduction for each year the member retires prior to age 60.

All other proposed provisions are equal to the provisions of PERS Plan 2.

Effective Date: July 1, 2006, unless modified or abolished by the legislature prior to July 1, 2006.

CURRENT SITUATION:

Members that would be eligible for the proposed PSERS Plan 2 are currently members of PERS plans 2/3. PERS Plan 2 provides for a retirement allowance equal to 2% of a member's average final compensation for each year of service credit payable under the following standard retirement options:

- Normal retirement at age 65 with at least 5 years of service credit
- Early retirement at age 55 with at least 20 years of service credit; retirement allowance with an actuarial reduction for each year the member retires prior to age 65.
- Alternate early retirement at age 55 with at least 30 years of service credit; retirement allowance reduced by 3% for each year the member retires prior to age 65.
- Disability retirement with at least 10 years of service credit; retirement allowance with an actuarial reduction for each year the member retires prior to age 65.

MEMBERS IMPACTED:

We estimate that approximately 7,200 members out of the total 132,448 members in PERS plans 2/3 would be eligible to transfer under this bill. However, since the enhanced PSERS retirement and disability benefit require at least 10 years of service credit, we estimate that 1,200 members would opt not to transfer from PERS to PSERS. This reduces the estimated initial PSERS population to about 6,000.

Demographic information for the group of PERS Plan 2/3 employees that will likely transfer to PSERS is summarized in the following table:

Estimated Initial PSERS Population

Job Class	Estimated Count*	GF-S Percentage	Local Government Percentage	Average Annual Salary
State Park Rangers	170	100%	0%	$39,800
Gambling Commission Enforcement Officers	70	0%	0%	$48,500
Liquor Enforcement Officers	55	17%	0%	$44,500
Commercial Vehicle Enforcement Officers	50	6%	0%	$45,200
State Correction Officers	2,800	100%	0%	$38,400
State Community Correction Officers	585	100%	0%	$41,300
County Correction Officers	1,765	0%	100%	$35,100
City Correction Officers**	130	0%	100%	$34,700
Local Community Correction Officers	340	0%	100%	$41,300
Total	**5,965**	**60%**	**36%**	**$38,100**

** Estimated counts increased by a 5% load due to uncertainty in the data and to reflect general conservatism*
*** Does not include employees covered under the first-class cities retirement system which are ineligible for membership*

The average PERS Plan 2/3 member that would likely transfer to PSERS is age 38 with about 7 years of service credit in PERS (as of September 30, 2002).

We estimate that for a typical member impacted by this bill, the increase in benefits would be the option to retire at the following earlier ages:

1. At age 53 or later, with a retirement allowance reduced by 3% per year for each year the member retires prior to age 60 (utilizing portability with PERS for eligibility purposes); or
2. At age 60, with an unreduced retirement allowance.

ASSUMPTIONS:

We have assumed that existing PERS Plan 2/3 members who could not benefit from the enhanced benefit provisions in PSERS will opt not to transfer to PSERS. Approximately 17% of the state correction officers in PERS plans 2/3 fall into this category. We have applied a similar percentage (20%) to the local government job classes where individual PERS member data is unavailable at this time.

We have assumed the following rates of retirement due to the enhanced retirement benefit provisions under this proposed retirement plan. Members with past service in PERS are assumed to retire at rates between the PERS rates and the Public Safety rates (weighted by service in each system).

Public Safety Retirement Rates		
Age	Male	Female
53	3%	3%
54	3%	3%
55	3%	3%
56	8%	8%
57	8%	8%
58	15%	11%
59	16%	12%
60	30%	36%
61	26%	26%
62	36%	36%
63	50%	50%
64	89%	89%
65	46%	31%
66	30%	30%
67	22%	26%
68	22%	26%
69	26%	22%
70	100%	100%

In determining the fiscal budget determinations, we have applied the GF-S and local government percentages contained in the Members Impacted section. We have also increased the average annual salary for state agency job classes by a 10% load due to uncertainty in the data and to reflect general conservatism. We used the high average salary from the Washington City and County 2003 Salary and Benefit Survey for the local government job classes where individual member data was unavailable.

FISCAL IMPACT:

Description:

This bill will transfer prospective service credit in PERS to the proposed PSERS Plan 2 for members that elect to transfer. As a result, the present value of future benefits for existing members impacted by this bill will decrease in PERS and increase in PSERS (see table under Actuarial Determinations).

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

(Dollars in Millions)		Current	Increase	Total
Actuarial Present Value of Projected Benefits				
(The Value of the Total Commitment to all Current Members)	**PERS 2/3**	$13,093	($304)	$12,789
	PSERS 2	$0	$385	$385
	Total	$13,093	$81	$13,174
Unfunded Actuarial Accrued Liability				
(The Portion of the Plan 1 Liability that is Amortized at 2024)	**PERS 2/3**	n/a	n/a	n/a
	PSERS 2	n/a	n/a	n/a
	Total	n/a	n/a	n/a
Unfunded Liability (PBO)				
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	**PERS 2/3**	($3,924)	$0	($3,924)
	PSERS 2	$0	$0	$0
	Total	($3,924)	$0	($3,924)

Projected Contribution Rates:

Projected PERS contribution rates will decrease as a result of this proposal. The Aggregate Cost (AC) method in PERS Plans 2/3 results in the funding of some benefits before they are accrued (future benefits). The amount of this “prefunding” depends on the length of one’s working career and the magnitude of past investment gains or losses relative to the long-term investment return assumption. Past investment gains and the “prefunding” of future benefits under the AC method, on an actuarial value basis, will not transfer from PERS to PSERS for the members that elect to transfer. This will serve to temporarily reduce projected PERS contribution rates after the transfer as reflected below.

The initial PSERS contribution rate will exceed the projected PERS rate by about 3% and trend down to about 1% in 2009 and thereafter. PERS contribution rates are projected to increase over the next several biennia due to recent asset losses. The projected PSERS contribution rate, on the other hand, remains relatively stable since the plan starts without any assets (and without any past investment gains or losses that are not yet recognized in the actuarial value of assets). As a result, it may require several biennia before the expected long-term biennial cost of this proposal will surface.

	PERS Increase	PSERS Increase	PSERS Total
2006-2007			
Employee (Plan 2)	(0.17)%	3.24%	6.57%
Employer	(0.17)%	3.24%	8.23%*
2007-2009			
Employee (Plan 2)	(0.09)%	2.17%	6.45%
Employer	(0.09)%	2.17%	8.72%
2009-2011			
Employee (Plan 2)	(0.04)%	1.33%	6.23%
Employer	(0.04)%	1.33%	9.04%
Long-Term Rates			
Employee (Plan 2)	0.0%	0.8%	5.3%
Employer	0.0%	0.8%	5.3%**

* *The employer is projected to contribute 6.57% to PSERS; the remainder is an estimate of the PERS 1 UAAL rate.*

***Assumes that the PERS 1 UAAL has been completely amortized.*

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	**PERS**	**PSERS***	**Total**
2004-2005			
State:			
General Fund	$ 0.00	$ 0.00	$ 0.00
Non-General Fund	0.00	0.00	0.00
Total State	**$ 0.00**	**$ 0.00**	**$ 0.00**
Local Government	$ 0.00	$ 0.00	$ 0.00
Total Employer	$ 0.00	$ 0.00	$ 0.00
2005-2007			
State:			
General Fund	$(2.6)	$7.0	$4.4
Non-General Fund	(4.3)	0.4	(3.9)
Total State	**$(6.9)**	**$7.4**	**$0.5**
Local Government	$(6.1)	$4.2	$(1.9)
Total Employer	$(13.0)	$11.6	$(1.4)
2004-2029			
State:			
General Fund	$(9.3)	$110.1	$100.8
Non-General Fund	(15.3)	5.8	(9.5)
Total State	**$(24.6)**	**$115.9**	**$91.3**
Local Government	$(21.8)	$66.2	$44.4
Total Employer	$(46.4)	$182.1	$135.7

**Represents the increase in funding expenditures for the members that are assumed to transfer from PERS to PSERS (not the total cost of PSERS).*

State Actuary's Comments:

Estimating the cost of a new retirement system with a high degree of accuracy is very difficult. The actual cost will be borne by the actual membership and actual experience of the plan in the future. Actual experience may vary from what is assumed in this fiscal note.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2002 actuarial valuation report of the Public Employees Retirement System.

   We also relied upon demographic data compiled in the Washington City and County Employee 2003 Salary and Benefit survey for the development of costs for the local government job classes where individual PERS member data is unavailable at this time.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report or in the body of this fiscal note include the following:

   We relied upon comparable state agency data as an estimate for local government job classes where individual member data was unavailable.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2004 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:
- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all Plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Sectional Analysis
Public Safety Employees' Retirement Plan Legislation

(December 15, 2003)

Sections 1 through 4 and 6 through 35 are new sections of a new chapter in Title 41 RCW

1. Intent section – sets forth policy criteria and rationale for new plan.

2. Definition section
   Lists "public safety" employers in 2(4)
   Lists job titles eligible to be included in plan membership in 2(5)

3. System created and administration

4. Membership and exceptions

5. Optional membership
   PERS 2/3 members have the option of joining PSERS or remaining in PERS 2/3.
   PERS 1 members remain in PERS 1.

6. Nonelective position -- Eligible membership

7. Information furnished to the department by employees, appointive and elective officials

8. Post-retirement employment provisions

9. Duty disability retirement recipients – Continued service credit

10. Members agree to deductions

11. Employer's contribution – Computation – Billing

12. Exemption from taxation and judicial process – Exceptions – Assignability – Deductions authorized

13. Disability retirement – Criminal conduct

14. Death benefit – Course of employment – $150,000

15. False statements penalty

16. Hearing prior to appeal required – Notice

17. Hearing prior to appeal – Conduct of hearing

18. Judicial review in accordance with administrative procedure act.

19. Appeal – No bond required.

20. Effect of certain accumulated vacation leave on retirement benefits.

21. Benefit Calculation – Limitation.

22. Post-retirement cost-of-living.

23. Options for payment of retirement allowances – Court-approved property settlement.

24. Suspension of retirement allowance upon reemployment – Exceptions – Reinstatement.

25. Computation of retirement allowance.

26. Lump sum retirement allowance – Reentry – Reinstatement of service.

27. Retirement eligibility

    Normal retirement – Age 65 with 5 years of service.
    Unreduced retirement – Age 60 with 10 years of service (not subject to portability.)
    Early retirement – Age 53 with 20 years of service, 3% early retirement reduction factor.

28. Employer and member contribution rates.

29. Earned disability allowance – Disposition upon death.

A member with 10 years of service may receive a benefit actuarially reduced from age 60 (not subject to portability.)
A members with less than 10 years of service may receive a benefit actuarially reduced from age 65.

30. Application for and effective date of retirement allowances.

31. Death benefits
    Survivors of a member with less than 10 years of service receive member's contributions plus interest.
    Survivors of a member eligible to retire or with at least 10 years of service receive an actuarially reduced joint and 100% earned benefit.

32. Leaves of absence, military service

33. Vested membership

34. Refund of contributions

35. Reentry

Sections 36 through 41 of the Funding chapter -- RCW 41.45 – were amended to include references to the Public Safety Employees' Retirement System.

36. Intent-Findings-Goals

37. Definitions

38. Contributions and allocations

39. Council adoption of contribution rates

40. Required contribution rates for Plan 2 members

41. Supplemental contribution rates

Sections 42 through 52 amend the Department of Retirement Systems chapter – RCW 41.50 – to include references to the Public Safety Employees' Retirement Plan.

42. Transfer of powers and duties

43. Delegation of powers duties and functions

44. Creation of funds

45. Investment of funds in various systems

46. Administrative expenses paid from the retirement systems expense fund

47. Employer liability for excess compensation

48. Public notice requirements for awarding excess compensation

49. Payment of legal and medical expenses of retirement systems

50. Mandatory assignment of retirement benefits

51. Property division obligations

52. Survivor benefits -- dissolution orders

Other amended sections

53. PERS -- definitions

54. LEOFF 2 -- suspension of benefits upon reemployment

55. TRS 2 -- suspension of benefits upon reemployment

56. SERS -- suspension of benefits upon reemployment

57. PERS 2 -- suspension of benefits upon reemployment

58. Portability chapter -- definitions

59. Portability chapter-- payment of retirement allowance and post retirement adjustment -- death benefit

60. Investment and Interfund Loans chapter -- Deposit of surplus balance investment earnings -- Treasury income account -- Accounts and funds credited

61. TRS 2 post retirement employment

62. TRS 3 post retirement employment

63. PERS post retirement employment

64. SERS post retirement employment

Final New Sections

65. This act takes effect July 1, 2006

66. Benefits not a contractual right prior to effective date of the act.

67. New chapter designation

-- END --

AN ACT Relating to establishing a public safety employees' retirement system plan 2; amending RCW 41.45.010, 41.45.020, 41.45.050, 41.50.030, 41.50.060, 41.50.075, 41.50.080, 41.50.110, 41.50.150, 41.50.152, 41.50.255, 41.50.500, 41.50.670, 41.50.790, 41.40.010, 41.26.500, 41.32.800, 41.35.230, 41.40.690, 41.54.010, 41.54.040, 41.32.802, 41.32.862, and 41.35.060; reenacting and amending RCW 41.45.060, 41.45.061, 41.45.070, 43.84.092, and 41.40.037; adding a new section to chapter 41.40 RCW; adding a new chapter to Title 41 RCW; creating a new section; prescribing penalties; and providing an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

<u>NEW SECTION.</u> **Sec. 1.** It is the intent of the legislature to establish a separate public safety employees' retirement system for those public employees whose jobs contain a high degree of physical risk to their own personal safety and who engage in duties contained in this section. The duties involved in these jobs include providing public protection of lives and property, the authority and power to arrest, conducting criminal investigations, enforcing the criminal laws of the state of Washington, and the authority to carry a firearm as

part of the job. Qualifications and training for these jobs include passage of a civil service examination and completion of the Washington criminal justice training commission basic training course or equivalent. Only those job classes specifically included in section 2(5) of this act by the legislature are public safety employees, and only for service earned after the effective date of the inclusion of that job class in section 2(5) of this act.

NEW SECTION. **Sec. 2.** The definitions in this section apply throughout this chapter, unless the context clearly requires otherwise.

(1) "Retirement system" means the Washington public safety employees' retirement system provided for in this act.

(2) "Department" means the department of retirement systems created in chapter 41.50 RCW.

(3) "State treasurer" means the treasurer of the state of Washington.

(4) "Employer" means the Washington state department of corrections, the Washington state parks and recreation commission, the Washington state gambling commission, the Washington state patrol, the Washington state liquor control board, county corrections departments, and city corrections departments not covered under chapter 41.28 RCW.

(5) "Member" means any employee employed by an employer on a full-time, fully compensated basis within the following job classes in effect as of January 1, 2004: City corrections officers, jailers, police support officers, custody officers, and bailiffs; county corrections officers, jailers, custody officers, and sheriffs corrections officers; county probation officers and probation counselors; state correctional officers, correctional sergeants, and community corrections officers; liquor enforcement officers; park rangers; commercial vehicle enforcement officers; and gambling special agents.

(6)(a) "Compensation earnable" for members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States internal revenue code, but shall exclude nonmoney maintenance compensation and lump sum or other payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

(b) "Compensation earnable" for members also includes the following actual or imputed payments, which are not paid for personal services:

(i) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement, which are awarded or granted as the equivalent of the salary or wage which the individual would have earned during a payroll period shall be considered compensation earnable to the extent provided in this subsection, and the individual shall receive the equivalent service credit;

(ii) In any year in which a member serves in the legislature, the member shall have the option of having such member's compensation earnable be the greater of:

(A) The compensation earnable the member would have received had such member not served in the legislature; or

(B) Such member's actual compensation earnable received for nonlegislative public employment and legislative service combined. Any additional contributions to the retirement system required because compensation earnable under (b)(ii)(A) of this subsection is greater than compensation earnable under (b)(ii)(B) of this subsection shall be paid by the member for both member and employer contributions;

(iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and 72.09.240;

(iv) Compensation that a member would have received but for a disability occurring in the line of duty only as authorized by section 10 of this act;

(v) Compensation that a member receives due to participation in the leave sharing program only as authorized by RCW 41.04.650 through 41.04.670; and

(vi) Compensation that a member receives for being in standby status. For the purposes of this section, a member is in standby status when not being paid for time actually worked and the employer requires the member to be prepared to report immediately for work, if the need arises, although the need may not arise.

(7) "Service" means periods of employment by a member on or after July 1, 2006, for one or more employers for which compensation earnable is paid. Compensation earnable earned for ninety or more hours in any

calendar month shall constitute one service credit month. Compensation earnable earned for at least seventy hours but less than ninety hours in any calendar month shall constitute one-half service credit month of service. Compensation earnable earned for less than seventy hours in any calendar month shall constitute one-quarter service credit month of service. Time spent in standby status, whether compensated or not, is not service.

Any fraction of a year of service shall be taken into account in the computation of such retirement allowance or benefits.

(a) Service in any state elective position shall be deemed to be full-time service.

(b) A member shall receive a total of not more than twelve service credit months of service for such calendar year. If an individual is employed in an eligible position by one or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service for ninety or more hours is rendered.

(8) "Service credit year" means an accumulation of months of service credit which is equal to one when divided by twelve.

(9) "Service credit month" means a month or an accumulation of months of service credit which is equal to one.

(10) "Membership service" means all service rendered as a member.

(11) "Beneficiary" means any person in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by another person.

(12) "Regular interest" means such rate as the director may determine.

(13) "Accumulated contributions" means the sum of all contributions standing to the credit of a member in the member's individual account, including any amount paid under RCW 41.50.165(2), together with the regular interest thereon.

(14) "Average final compensation" means the member's average compensation earnable of the highest consecutive sixty months of service credit months prior to such member's retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under section 35 of this act.

(15) "Final compensation" means the annual rate of compensation earnable by a member at the time of termination of employment.

(16) "Annuity" means payments for life derived from accumulated contributions of a member. All annuities shall be paid in monthly installments.

(17) "Pension" means payments for life derived from contributions made by the employer. All pensions shall be paid in monthly installments.

(18) "Retirement allowance" means monthly payments to a retiree or beneficiary as provided in this chapter.

(19) "Employee" or "employed" means a person who is providing services for compensation to an employer, unless the person is free from the employer's direction and control over the performance of work. The department shall adopt rules and interpret this subsection consistent with common law.

(20) "Actuarial equivalent" means a benefit of equal value when computed upon the basis of such mortality and other tables as may be adopted by the director.

(21) "Retirement" means withdrawal from active service with a retirement allowance as provided by this chapter.

(22) "Eligible position" means any permanent, full-time, fully compensated position included in subsection (5) of this section.

(23) "Ineligible position" means any position which does not conform with the requirements set forth in subsection (22) of this section.

(24) "Leave of absence" means the period of time a member is authorized by the employer to be absent from service without being separated from membership.

(25) "Retiree" means any person who has begun accruing a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer while a member.

(26) "Director" means the director of the department.

(27) "State elective position" means any position held by any person elected or appointed to statewide office or elected or appointed as a member of the legislature.

(28) "State actuary" or "actuary" means the person appointed pursuant to RCW 44.44.010(2).

(29) "Plan" means the Washington public safety employees' retirement system plan 2.

(30) "Index" means, for any calendar year, that year's annual average consumer price index, Seattle, Washington area, for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

(31) "Index A" means the index for the year prior to the determination of a postretirement adjustment.

(32) "Index B" means the index for the year prior to index A.

(33) "Adjustment ratio" means the value of index A divided by index B.

(34) "Separation from service" occurs when a person has terminated all employment with an employer.

NEW SECTION. **Sec. 3.** A retirement system is hereby created for public safety employees of the Washington state department of corrections, the Washington state parks and recreation commission, the Washington state gambling commission, the Washington state patrol, the Washington state liquor control board, county corrections departments, and city corrections departments not covered under chapter 41.28 RCW. The administration and management of the retirement system, the responsibility for making effective the provisions of this chapter, and the authority to make all rules necessary therefor are hereby vested in the department. All rules shall be governed by chapter 34.05 RCW. This retirement system shall be known as the Washington public safety employees' retirement system.

NEW SECTION. **Sec. 4.** Membership in the retirement system shall consist of all regularly compensated public safety employees who are members as defined in section 2(5) of this act, with the following exceptions:

(1) Persons in ineligible positions;

(2)(a) Persons holding elective offices or persons appointed directly by the governor: PROVIDED, That such persons shall have the option of applying for membership during such periods of employment: AND PROVIDED FURTHER, That any persons holding or who have held elective offices or persons appointed by the governor who are members in the retirement system and who have, prior to becoming such members, previously held an elective office, and did not at the start of such initial or successive terms of office exercise their option to become members, may apply for membership to be effective during such term or terms of office, and shall be allowed to establish the service credit applicable to such term or terms of office upon payment of the employee contributions therefor by the employee with interest as determined by the director and employer contributions therefor by the employer or employee with interest as determined by the director: AND PROVIDED FURTHER, That all contributions with interest submitted by the employee under this subsection shall be placed in the employee's individual account in the employee's savings fund and be treated as any other contribution made by the employee, with the exception that any contributions submitted by the employee in payment of the employer's obligation, together with the interest the director may apply to the employer's contribution, shall not be considered part of the member's annuity for any purpose except withdrawal of contributions;

(b) A member holding elective office who has elected to apply for membership pursuant to (a) of this subsection and who later wishes to be eligible for a retirement allowance shall have the option of ending his or her membership in the retirement system. A member wishing to end his or her membership under this subsection must file on a form supplied by the department a statement indicating that the member agrees to irrevocably abandon any claim for service for future periods served as an elected official. A member who receives more than fifteen thousand dollars per year in compensation for his or her elective service, adjusted annually for inflation by the director, is not eligible for the option provided by this subsection (2)(b);

(3) Retirement system retirees: PROVIDED, That following reemployment in an eligible position, a retiree may elect to prospectively become a member of the retirement system if otherwise eligible;

(4) Persons enrolled in state-approved apprenticeship programs, authorized under chapter 49.04 RCW, and who are employed by employers to earn hours to complete such apprenticeship programs, if the employee is a member of a union-sponsored retirement plan and is making contributions to such a retirement plan or if the employee is a member of a Taft-Hartley retirement plan;

(5) Persons rendering professional services to an employer on a fee, retainer, or contract basis or when the income from these services is less than fifty percent of the gross income received from the person's practice of a profession; and

(6) Employees who (a) are not citizens of the United States, (b) are not covered by chapter 41.48 RCW, (c) are not excluded from membership under this chapter or chapter 41.04 RCW, (d) are residents of this state, and (e) make an irrevocable election to be excluded from membership, in writing, which is submitted to the director within thirty days after employment in an eligible position.

NEW SECTION. **Sec. 5.** A new section is added to chapter 41.40 RCW to read as follows:

(1) An employee who was a member of the public employees' retirement system plan 2 or plan 3 before July 1, 2006, and on the effective date of this act is employed by an employer as defined in section 2(4) of this act and is an employee in a job class included in section 2(5) of this act, has the following options during the election period:

(a) Remain a member of the public employees' retirement system; or

(b) Become a member of the public safety employees' retirement system plan 2. All members will be dual members as provided in chapter 41.54 RCW, and public employees' retirement system service credit may not be transferred to the public safety employees' retirement system plan 2.

(2) The "election period" is the period between July 1, 2006, and September 30, 2006.

(3) During the election period, employees remain members of the public employees' retirement system plan 2 or plan 3 until they elect to join the public safety employees' retirement system. Members who elect to join the public safety employees' retirement system as described in subsection (1) of this section will have their membership begin prospectively from the date of their election.

(4) If after September 30, 2006, the member has not made an election to join the public safety employees' retirement system he or she will remain in the public employees' retirement system plan 2 or plan 3.

(5) An employee who was a member of the public employees' retirement system plan 1 on or before July 1, 2006, and on or after the effective date of this act is employed by an employer as defined in section 2(4) of this act as an employee in a job class included in section 2(5) of this act, shall remain a member of the public employees' retirement system plan 1.

(6) All new employees hired on or after July 1, 2006, who become employed by an employer as defined in section 2(4) of this act as an employee in a job class included in section 2(5) of this act will become members of the public safety employees' retirement system.

NEW SECTION. **Sec. 6.** Any person who has been employed in a nonelective position for at least nine months and who has made member contributions required under this chapter throughout such period, shall be deemed to have been in an eligible position during such period of employment.

NEW SECTION. **Sec. 7.** Within thirty days after his or her employment or his or her acceptance into membership each employee shall submit to the department a statement of his or her name and such other information as the department shall require. Compliance with this section is a condition of employment and failure by an employee to comply may result in separation from service.

NEW SECTION. **Sec. 8.** (1)(a) If a retiree enters employment with an employer sooner than one calendar month after his or her accrual date, the retiree's monthly retirement allowance will be reduced by five and one-half percent for every eight hours worked during that month. This reduction will be applied each month until the retiree remains absent from employment with an employer for one full calendar month.

(b) The benefit reduction provided in (a) of this subsection will accrue for a maximum of one hundred sixty hours per month. Any benefit reduction over one hundred percent will be applied to the benefit the retiree is eligible to receive in subsequent months.

(2) A retiree who has satisfied the break in employment requirement of subsection (1) of this section may work up to eight hundred sixty-

seven hours per calendar year in an eligible position as defined in RCW 41.32.010, 41.35.010, or 41.40.010, without suspension of his or her benefit.

(3) If the retiree opts to reestablish membership under this chapter, he or she terminates his or her retirement status and becomes a member. Retirement benefits shall not accrue during the period of membership and the individual shall make contributions and receive membership credit. Such a member shall have the right to again retire if eligible in accordance with this chapter. However, if the right to retire is exercised to become effective before the member has rendered two uninterrupted years of service, the retirement formula and survivor options the member had at the time of the member's previous retirement shall be reinstated.

(4) The department shall collect and provide the state actuary with information relevant to the use of this section for the select committee on pension policy.

NEW SECTION. **Sec. 9.** Those members subject to this chapter who became disabled in the line of duty and who received or are receiving benefits under Title 51 RCW or a similar federal workers' compensation program shall receive or continue to receive service credit subject to the following:

(1) No member may receive more than one month's service credit in a calendar month.

(2) No service credit under this section may be allowed after a member separates or is separated without leave of absence.

(3) Employer contributions shall be paid by the employer at the rate in effect for the period of the service credited.

(4) Employee contributions shall be collected by the employer and paid to the department at the rate in effect for the period of service credited.

(5) Contributions shall be based on the regular compensation which the member would have received had the disability not occurred. If contribution payments are made retroactively, interest shall be charged at the rate set by the director on both employee and employer contributions. Service credit shall not be granted until the employee contribution has been paid.

(6) The service and compensation credit shall not be granted for a period to exceed twelve consecutive months.

(7) Should the legislature revoke the service credit authorized under this section or repeal this section, no affected employee is entitled to receive the credit as a matter of contractual right.

NEW SECTION. **Sec. 10.** The deductions from the compensation of members, provided for in section 28 of this act, shall be made notwithstanding that the minimum compensation provided for by law for any member shall be reduced thereby. Every member shall be deemed to consent and agree to the deductions made and provided for in this chapter and receipt in full for his or her salary or compensation, and payment, less the deductions, shall be a full and complete discharge and acquittance of all claims and demands whatsoever for the services rendered by the person during the period covered by the payment, except as to benefits provided for under this chapter.

NEW SECTION. **Sec. 11.** (1) The director shall report to each employer the contribution rates required for the ensuing biennium or fiscal year, whichever is applicable.

(2) Beginning July 1, 2006, the amount to be collected as the employer's contribution shall be computed by applying the applicable rates established in chapter 41.45 RCW to the total compensation earnable of employer's members as shown on the current payrolls of the employer. Each employer shall compute at the end of each month the amount due for that month and the same shall be paid as are its other obligations.

(3) In the event of failure, for any reason, of an employer other than a political subdivision of the state to have remitted amounts due for membership service of any of the employer's members rendered during a prior biennium, the director shall bill that employer for the employer's contribution together with the charges the director deems appropriate in accordance with RCW 41.50.120. This billing shall be paid by the employer as, and the same shall be, a proper charge against any moneys available or appropriated to the employer for payment of current biennial payrolls.

NEW SECTION. **Sec. 12.** (1) Subject to subsections (2) and (3) of this section, the right of a person to a pension, an annuity, or retirement allowance, any optional benefit, any other right accrued or accruing to any person under this chapter, the various funds created by this chapter, and all moneys and investments and income thereof, are hereby exempt from any state, county, municipal, or other local tax, and shall not be subject to execution, garnishment, attachment, the operation of bankruptcy or insolvency laws, or other process of law whatsoever, and shall be unassignable.

(2) This section does not prohibit a beneficiary of a retirement allowance from authorizing deductions therefrom for payment of premiums due on any group insurance policy or plan issued for the benefit of a group comprised of public employees of the state of Washington or its political subdivisions and which has been approved for deduction in accordance with rules that may be adopted by the state health care authority and/or the department. This section also does not prohibit a beneficiary of a retirement allowance from authorizing deductions therefrom for payment of dues and other membership fees to any retirement association or organization the membership of which is composed of retired public employees, if a total of three hundred or more retired employees have authorized the deduction for payment to the same retirement association or organization.

(3) Subsection (1) of this section does not prohibit the department from complying with (a) a wage assignment order for child support issued pursuant to chapter 26.18 RCW, (b) an order to withhold and deliver issued pursuant to chapter 74.20A RCW, (c) a notice of payroll deduction issued pursuant to RCW 26.23.060, (d) a mandatory benefits assignment order issued by the department, (e) a court order directing the department to pay benefits directly to an obligee under a dissolution order as defined in RCW 41.50.500(3) which fully complies with RCW 41.50.670 and 41.50.700, or (f) any administrative or court order expressly authorized by federal law.

NEW SECTION. **Sec. 13.** A member shall not receive a disability retirement benefit under section 29 of this act if the disability is the result of criminal conduct by the member committed after July 1, 2006.

NEW SECTION. **Sec. 14.** (1) A one hundred fifty thousand dollar death benefit shall be paid to the member's estate, or the person or persons, trust, or organization the member has nominated by written designation duly executed and filed with the department. If the designated person or persons are not still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of injuries sustained in the course of employment. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

NEW SECTION. **Sec. 15.** Any person who knowingly makes any false statements, or falsifies or permits to be falsified any record or records of this retirement system in any attempt to defraud the retirement system as a result of such an act, is guilty of a gross misdemeanor.

NEW SECTION. **Sec. 16.** Any person aggrieved by any decision of the department affecting his or her legal rights, duties, or privileges must, before he or she appeals to the courts, file with the director by mail or personally within sixty days from the day the decision was communicated to the person, a notice for a hearing before the director's designee. The notice of hearing shall set forth in full detail the grounds upon which the person considers the decision unjust or unlawful and shall include every issue to be considered by the department, and it must contain a detailed statement of facts upon which the person relies in support of the appeal. These persons shall be deemed to have waived all objections or irregularities concerning the matter on which the appeal is taken, other than those specifically set forth in the notice of hearing or appearing in the records of the retirement system.

NEW SECTION. **Sec. 17.** Following its receipt of a notice for hearing in accordance with section 16 of this act, a hearing shall be held by the director or an authorized representative, in the county of the residence of the claimant at a time and place designated by the director. This hearing shall be conducted and governed in all respects by chapter 34.05 RCW.

NEW SECTION. **Sec. 18.** Judicial review of any final decision and order by the director is governed by chapter 34.05 RCW.

NEW SECTION. **Sec. 19.** A bond of any kind shall not be required of a claimant appealing to the superior court, the court of appeals, or the supreme court from a finding of the department affecting the claimant's right to retirement or disability benefits.

NEW SECTION. **Sec. 20.** RCW 43.01.044 shall not result in any increase in retirement benefits. The rights extended to state officers and employees under RCW 43.01.044 are not intended to and shall not have any effect on retirement benefits under this chapter.

NEW SECTION. **Sec. 21.** (1) The annual compensation taken into account in calculating retiree benefits under this system shall not exceed the limits imposed by section 401(a)(17) of the federal internal revenue code for qualified trusts.

(2) The department shall adopt rules as necessary to implement this section.

NEW SECTION. **Sec. 22.** Beginning July 1, 2006, and every year thereafter, the department shall determine the following information for each retired member or beneficiary whose retirement allowance has been in effect for at least one year:

(1) The original dollar amount of the retirement allowance;

(2) The index for the calendar year prior to the effective date of the retirement allowance, to be known as "index A";

(3) The index for the calendar year prior to the date of determination, to be known as "index B"; and

(4) The ratio obtained when index B is divided by index A.

The value of the ratio obtained shall be the annual adjustment to the original retirement allowance and shall be applied beginning with the July payment. In no event, however, shall the annual adjustment:

(a) Produce a retirement allowance which is lower than the original retirement allowance;

(b) Exceed three percent in the initial annual adjustment; or

(c) Differ from the previous year's annual adjustment by more than three percent.

For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index, Seattle, Washington area, for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

NEW SECTION. **Sec. 23.** (1) Upon retirement for service as prescribed in section 27 of this act or retirement for disability under section 29 of this act, a member shall elect to have the retirement allowance paid pursuant to one of the following options, calculated so as to be actuarially equivalent to each other.

(a) Standard allowance. A member electing this option shall receive a retirement allowance payable throughout the member's life. If the retiree dies before the total of the retirement allowance paid to the retiree equals the amount of the retiree's accumulated contributions at the time of retirement, then the balance shall be paid to the member's estate, or the person or persons, trust, or organization the retiree nominated by written designation duly executed and filed with the department; or if there is no designated person or persons still living at the time of the retiree's death, then to the surviving spouse; or if there is neither a designated person or persons still living at the time of death nor a surviving spouse, then to the retiree's legal representative.

(b) The department shall adopt rules that allow a member to select a retirement option that pays the member a reduced retirement allowance and upon death, the portion of the member's reduced retirement allowance as the department by rule designates shall be continued throughout the life of and paid to a person nominated by the member by written designation duly executed and filed with the department at the time of retirement. The options adopted by the department shall include, but are not limited to, a joint and one hundred percent survivor option and a joint and fifty percent survivor option.

(2)(a) A member, if married, must provide the written consent of his or her spouse to the option selected under this section, except as provided in (b) of this subsection. If a member is married and both the member and the member's spouse do not give written consent to an option under this section, the department shall pay a joint and fifty percent survivor benefit calculated to be actuarially equivalent to the benefit options available under subsection (1) of this section unless spousal consent is not required as provided in (b) of this subsection.

(b) If a copy of a dissolution order designating a survivor beneficiary under RCW 41.50.790 has been filed with the department at least thirty days prior to a member's retirement:

(i) The department shall honor the designation as if made by the member under subsection (1) of this section; and

(ii) The spousal consent provisions of (a) of this subsection do not apply.

(3) The department shall adopt rules that allow a member additional actuarially equivalent survivor benefit options, and shall include, but are not limited to:

(a)(i) A retired member who retired without designating a survivor beneficiary shall have the opportunity to designate their spouse from a postretirement marriage as a survivor during a one-year period beginning one year after the date of the postretirement marriage provided the retirement allowance payable to the retiree is not subject to periodic payments pursuant to a property division obligation as provided for in RCW 41.50.670.

(ii) A member who entered into a postretirement marriage prior to the effective date of the rules adopted pursuant to this subsection and satisfies the conditions of (a)(i) of this subsection shall have one year to designate their spouse as a survivor beneficiary following the adoption of the rules.

(b) A retired member who elected to receive a reduced retirement allowance under this section and designated a nonspouse as survivor beneficiary shall have the opportunity to remove the survivor designation and have their future benefit adjusted.

(c) The department may make an additional charge, if necessary, to ensure that the benefits provided under this subsection remain actuarially equivalent.

(4) The department shall adopt rules to permit:

(a) A court-approved property settlement incident to a court decree of dissolution made before retirement to provide that benefits payable to a member who meets the length of service requirements of section 27 of this act and the member's divorcing spouse be divided into two separate benefits payable over the life of each spouse.

The member shall have available the benefit options of subsection (1) of this section upon retirement, and if remarried at the time of retirement remains subject to the spousal consent requirements of subsection (2) of this section. Any reductions of the member's benefit subsequent to the division into two separate benefits shall be made solely to the separate benefit of the member.

The nonmember ex spouse shall be eligible to commence receiving their separate benefit upon reaching the age provided in section 27(1) of this act and after filing a written application with the department.

(b) A court-approved property settlement incident to a court decree of dissolution made after retirement may only divide the benefit into two separate benefits payable over the life of each spouse if the nonmember ex spouse was selected as a survivor beneficiary at retirement.

The retired member may later choose the survivor benefit options available in subsection (3) of this section. Any actuarial reductions subsequent to the division into two separate benefits shall be made solely to the separate benefit of the member.

Both the retired member and the nonmember divorced spouse shall be eligible to commence receiving their separate benefits upon filing a copy of the dissolution order with the department in accordance with RCW 41.50.670.

(c) The department may make an additional charge or adjustment if necessary to ensure that the separate benefits provided under this subsection are actuarially equivalent to the benefits payable prior to the decree of dissolution.

NEW SECTION. **Sec. 24.** (1) Except as provided in section 8 of this act, a retiree shall not be eligible to receive the retiree's monthly retirement allowance if he or she is employed in an eligible position as defined in section 2 of this act, or RCW 41.35.010, 41.40.010, or 41.32.010, or as a law enforcement officer or fire fighter as defined in RCW 41.26.030, except that a retiree who ends his or her membership in the retirement system pursuant to section 4(2)(b) of this act is not subject to this section if the retiree's only employment is as an elective official.

(2) If a retiree's benefits have been suspended under this section, his or her benefits shall be reinstated when the retiree terminates the employment that caused his or her benefits to be suspended. Upon reinstatement, the retiree's benefits shall be actuarially recomputed pursuant to the rules adopted by the department.

(3) The department shall adopt rules implementing this section.

NEW SECTION. **Sec. 25.** A member of the retirement system shall receive a retirement allowance equal to two percent of such member's average final compensation for each service credit year of service.

NEW SECTION. **Sec. 26.** (1) The director may pay a member eligible to receive a retirement allowance or the member's beneficiary, subject to subsection (5) of this section, a lump sum payment in lieu of a monthly benefit if the initial monthly benefit computed in accordance with section 25 of this act would be less than fifty dollars. The lump sum payment shall be the greater of the actuarial equivalent of the monthly benefits or an amount equal to the individual's accumulated contributions plus accrued interest.

(2) A retiree or a beneficiary, subject to subsection (5) of this section, who is receiving a regular monthly benefit of less than fifty dollars may request, in writing, to convert from a monthly benefit to a lump sum payment. If the director approves the conversion, the calculation of the actuarial equivalent of the total estimated regular benefit will be computed based on the beneficiary's age at the time the benefit initially accrued. The lump sum payment will be reduced to reflect any payments received on or after the initial benefit accrual date.

(3) Persons covered under subsection (1) of this section may upon returning to member status reinstate all previous service by depositing the lump sum payment received, with interest as computed by the director, within two years of returning to service or prior to

reretiring, whichever comes first. In computing the amount due, the director shall exclude the accumulated value of the normal payments the member would have received while in beneficiary status if the lump sum payment had not occurred.

(4) If a member fails to meet the time limitations under subsection (3) of this section, reinstatement of all previous service will occur if the member pays the amount required under RCW 41.50.165(2). The amount, however, shall exclude the accumulated value of the normal payments the member would have received while in beneficiary status if the lump sum payment had not occurred.

(5) Only persons entitled to or receiving a service retirement allowance under section 27 of this act or an earned disability allowance under section 29 of this act qualify for participation under this section.

(6) It is the intent of the legislature that any member who receives a settlement under this section shall be deemed to be retired from this system.

NEW SECTION. **Sec. 27.** (1) NORMAL RETIREMENT. Any member with at least five service credit years who has attained at least age sixty-five shall be eligible to retire and to receive a retirement allowance computed according to section 25 of this act.

(2) UNREDUCED RETIREMENT. Any member who has completed at least ten service credit years in the public safety employees' retirement system and has attained age sixty shall be eligible to retire and to receive a retirement allowance computed according to section 25 of this act.

(3) EARLY RETIREMENT. Any member who has completed at least twenty service credit years and has attained age fifty-three shall be eligible to retire and to receive a retirement allowance computed according to section 25 of this act, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty.

NEW SECTION. **Sec. 28.** The required contribution rates to the retirement system for both members and employers shall be established by the director from time to time as may be necessary upon the advice of the state actuary. The state actuary shall use the aggregate actuarial cost method to calculate contribution rates. The employer contribution rate calculated under this section shall be used only for the purpose of determining the amount of employer contributions to be deposited in the plan 2 fund from the total employer contributions collected under section 11 of this act.

Contribution rates required to fund the costs of the retirement system shall always be equal for members and employers, except under this section. Any adjustments in contribution rates required from time to time for future costs shall likewise be shared equally by the members and employers.

Any increase in the contribution rate required as the result of a failure of an employer to make any contribution required by this section shall be borne in full by the employer not making the contribution.

The director shall notify all employers of any pending adjustment in the required contribution rate and the increase shall be announced at least thirty days prior to the effective date of the change.

A member's contributions required by this section shall be deducted from the member's compensation earnable each payroll period. The member's contribution and the employer's contribution shall be remitted directly to the department within fifteen days following the end of the calendar month during which the payroll period ends.

NEW SECTION. **Sec. 29.** (1)(a) A member of the retirement system with at least ten years of service in the public safety employees' retirement system who becomes totally incapacitated for continued employment as an employee by an employer, as determined by the department, shall be eligible to receive an allowance under sections 25 through 35 of this act. The member shall receive a monthly disability allowance computed as provided for in section 25 of this act and shall have this allowance actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age sixty.

(b) A member of the retirement system with less than ten years of service who becomes totally incapacitated for continued employment by an employer, as determined by the department, shall be eligible to receive an allowance under sections 25 through 35 of this act. The member shall receive a monthly disability allowance computed as provided for in section 25 of this act and shall have this allowance actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(2) Any member who receives an allowance under this section shall be subject to comprehensive medical examinations as required by the department. If these medical examinations reveal that a member has recovered from the incapacitating disability and the member is offered reemployment by an employer at a comparable compensation, the member shall cease to be eligible for the allowance.

(3) If the recipient of a monthly allowance under this section dies before the total of the allowance payments equal the amount of the accumulated contributions at the date of retirement, then the balance shall be paid to the member's estate, or the person or persons, trust, or organization the recipient has nominated by written designation duly executed and filed with the director. If there is no designated person or persons still living at the time of the recipient's death, then to the surviving spouse, or, if there is no designated person or persons still living at the time of his or her death nor a surviving spouse, then to his or her legal representative.

NEW SECTION. **Sec. 30.** Any member or beneficiary eligible to receive a retirement allowance under section 27, 29, or 31 of this act shall be eligible to commence receiving a retirement allowance after having filed written application with the department.

(1) Retirement allowances paid to members under section 27 of this act shall accrue from the first day of the calendar month immediately following the member's separation from employment.

(2) Retirement allowances paid to vested members no longer in service, but qualifying for an allowance pursuant to section 27 of this act, shall accrue from the first day of the calendar month immediately following the qualification.

(3) Disability allowances paid to disabled members under section 29 of this act shall accrue from the first day of the calendar month immediately following the member's separation from employment for disability.

(4) Retirement allowances paid as death benefits under section 31

of this act shall accrue from the first day of the calendar month immediately following the member's death.

NEW SECTION. **Sec. 31.** (1) Except as provided in RCW 11.07.010, if a member or a vested member who has not completed at least ten years of service dies, the amount of the accumulated contributions standing to that member's credit in the retirement system at the time of the member's death, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's estate, or the person or persons, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department. If there is no designated person or persons still living at the time of the member's death, the member's accumulated contributions standing to the member's credit in the retirement system, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's surviving spouse as if in fact that spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) If a member who is eligible for retirement or a member who has completed at least ten years of service dies, the surviving spouse or eligible child or children shall elect to receive either:

(a) A retirement allowance computed as provided for in section 27 of this act, actuarially reduced by the amount of any lump sum benefit identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670 and actuarially adjusted to reflect a joint and one hundred percent survivor option under section 23 of this act and, except under subsection (4) of this section, if the member was not eligible for normal retirement at the date of death a further reduction as described in section 27 of this act; if a surviving spouse who is receiving a retirement allowance dies leaving a child or children of the member under the age of majority, then the child or children shall continue to receive an allowance in an amount equal to that which was being received by the surviving spouse, share and share alike, until the child or children reach the age of majority; if there is no surviving spouse eligible to receive an allowance at the time of the member's death, the member's child or children under the age of majority shall receive an allowance, share and share alike, calculated under this section making the assumption that the ages of the spouse and member were equal at the time of the member's death; or

(b) The member's accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670.

(3) If a member who is eligible for retirement or a member who has completed at least ten years of service dies and is not survived by a spouse or an eligible child, then the accumulated contributions standing to the member's credit, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid:

(a) To a person or persons, estate, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department; or

(b) If there is no designated person or persons still living at the time of the member's death, then to the member's legal representatives.

(4) A member who is killed in the course of employment, as determined by the director of the department of labor and industries, is not subject to an actuarial reduction under section 27 of this act. The member's retirement allowance is computed under section 25 of this act.

NEW SECTION. **Sec. 32.** (1) A member who is on a paid leave of absence authorized by a member's employer shall continue to receive service credit as provided for under sections 25 through 35 of this act.

(2) A member who receives compensation from an employer while on an authorized leave of absence to serve as an elected official of a labor organization, and whose employer is reimbursed by the labor organization for the compensation paid to the member during the period of absence, may also be considered to be on a paid leave of absence. This subsection shall only apply if the member's leave of absence is authorized by a collective bargaining agreement that provides that the member retains seniority rights with the employer during the period of leave. The compensation earnable reported for a member who establishes

service credit under this subsection may not be greater than the salary paid to the highest paid job class covered by the collective bargaining agreement.

(3) Except as specified in subsection (4) of this section, a member shall be eligible to receive a maximum of two years service credit during a member's entire working career for those periods when a member is on an unpaid leave of absence authorized by an employer. This credit may be obtained only if:

(a) The member makes both the employer and member contributions plus interest as determined by the department for the period of the authorized leave of absence within five years of resumption of service or prior to retirement whichever comes sooner; or

(b) If not within five years of resumption of service but prior to retirement, pay the amount required under RCW 41.50.165(2).

The contributions required under (a) of this subsection shall be based on the average of the member's compensation earnable at both the time the authorized leave of absence was granted and the time the member resumed employment.

(4) A member who leaves the employ of an employer to enter the armed forces of the United States shall be entitled to retirement system service credit for up to five years of military service. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

(a) The member qualifies for service credit under this subsection if:

(i) Within ninety days of the member's honorable discharge from the United States armed forces, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the United States armed forces; and

(ii) The member makes the employee contributions required under section 28 of this act within five years of resumption of service or prior to retirement, whichever comes sooner; or

(iii) Prior to retirement and not within ninety days of the member's honorable discharge or five years of resumption of service the member pays the amount required under RCW 41.50.165(2).

(b) Upon receipt of member contributions under (a)(ii) of this subsection, the department shall establish the member's service credit and shall bill the employer for its contribution required under section 28 of this act for the period of military service, plus interest as determined by the department.

(c) The contributions required under (a)(ii) of this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

NEW SECTION. **Sec. 33.** A member who separates or has separated after having completed at least five years of service may remain a member during the period of the member's absence from service for the exclusive purpose only of receiving a retirement allowance under section 27 of this act if the member maintains the member's accumulated contributions intact.

NEW SECTION. **Sec. 34.** A member who ceases to be an employee of an employer except by service or disability retirement may request a refund of the member's accumulated contributions. The refund shall be made within ninety days following the receipt of the request and notification of termination through the contribution reporting system by the employer; except that in the case of death, an initial payment shall be made within thirty days of receipt of request for such payment and notification of termination through the contribution reporting system by the employer. A member who files a request for refund and subsequently enters into employment with another employer prior to the refund being made shall not be eligible for a refund. The refund of accumulated contributions shall terminate all rights to benefits under sections 25 through 35 of this act.

NEW SECTION. **Sec. 35.** (1) A member, who had left service and withdrawn the member's accumulated contributions, shall receive service credit for prior service if the member restores all withdrawn accumulated contributions together with interest since the time of withdrawal as determined by the department.

The restoration of funds must be completed within five years of the resumption of service or prior to retirement, whichever occurs first.

(2) If a member fails to meet the time limitations of subsection (1) of this section, the member may receive service credit destroyed by the withdrawn contributions if the amount required under RCW 41.50.165(2) is paid.

Sec. 36. RCW 41.45.010 and 2002 c 26 s 3 are each amended to read as follows:

It is the intent of the legislature to provide a dependable and systematic process for funding the benefits provided to members and retirees of the public employees' retirement system, chapter 41.40 RCW; the teachers' retirement system, chapter 41.32 RCW; the law enforcement officers' and fire fighters' retirement systems, chapter 41.26 RCW; the school employees' retirement system, chapter 41.35 RCW; the public safety employees' retirement system, chapter 41.-- RCW (sections 1 through 4 and 6 through 35 of this act); and the Washington state patrol retirement system, chapter 43.43 RCW.

The legislature finds that the funding status of the state retirement systems has improved dramatically since 1989. Because of the big reduction in unfunded pension liabilities, it is now prudent to adjust the long-term economic assumptions that are used in the actuarial studies conducted by the state actuary. The legislature finds that it is reasonable to increase the salary growth assumption in light of Initiative Measure No. 732, to increase the investment return assumption in light of the asset allocation policies and historical returns of the state investment board, and to reestablish June 30, 2024, as the target date to achieve full funding of all liabilities in the public employees' retirement system plan 1, the teachers' retirement system plan 1, and the law enforcement officers' and fire fighters' retirement system plan 1.

The funding process established by this chapter is intended to achieve the following goals:

(1) To ((~~continue to~~)) fully fund the public employees' retirement system plans 2 and 3, the teachers' retirement system plans 2 and 3, the school employees' retirement system plans 2 and 3, the public safety employees' retirement system plan 2, and the law enforcement officers' and fire fighters' retirement system plan 2 as provided by law;

(2) To fully amortize the total costs of the public employees' retirement system plan 1, the teachers' retirement system plan 1, and the law enforcement officers' and fire fighters' retirement system plan 1, not later than June 30, 2024;

(3) To establish predictable long-term employer contribution rates which will remain a relatively constant proportion of the future state budgets; and

(4) To fund, to the extent feasible, benefit increases for plan 1 members and all benefits for plan 2 and 3 members over the working lives of those members so that the cost of those benefits are paid by the taxpayers who receive the benefit of those members' service.

Sec. 37. RCW 41.45.020 and 2003 c 295 s 8 are each amended to read as follows:

As used in this chapter, the following terms have the meanings indicated unless the context clearly requires otherwise.

(1) "Council" means the pension funding council created in RCW 41.45.100.

(2) "Department" means the department of retirement systems.

(3) "Law enforcement officers' and fire fighters' retirement system plan 1" and "law enforcement officers' and fire fighters' retirement system plan 2" means the benefits and funding provisions under chapter 41.26 RCW.

(4) "Public employees' retirement system plan 1," "public employees' retirement system plan 2," and "public employees' retirement system plan 3" mean the benefits and funding provisions under chapter 41.40 RCW.

(5) "Teachers' retirement system plan 1," "teachers' retirement system plan 2," and "teachers' retirement system plan 3" mean the benefits and funding provisions under chapter 41.32 RCW.

(6) "School employees' retirement system plan 2" and "school employees' retirement system plan 3" mean the benefits and funding provisions under chapter 41.35 RCW.

(7) "Washington state patrol retirement system" means the retirement benefits provided under chapter 43.43 RCW.

(8) "Unfunded liability" means the unfunded actuarial accrued liability of a retirement system.

(9) "Actuary" or "state actuary" means the state actuary employed under chapter 44.44 RCW.

(10) "State retirement systems" means the retirement systems listed in RCW 41.50.030.

(11) "Classified employee" means a member of the Washington school employees' retirement system plan 2 or plan 3 as defined in RCW 41.35.010.

(12) "Teacher" means a member of the teachers' retirement system as defined in RCW 41.32.010(15).

(13) "Select committee" means the select committee on pension policy created in RCW 41.04.276.

(14) "Public safety employees' retirement system plan 2" means the benefits and funding provisions established under chapter 41.-- RCW (sections 1 through 4 and 6 through 35 of this act).

Sec. 38. RCW 41.45.050 and 2002 c 26 s 5 are each amended to read as follows:

(1) Employers of members of the public employees' retirement system, the teachers' retirement system, the school employees' retirement system, the public safety employees' retirement system, and the Washington state patrol retirement system shall make contributions to those systems based on the rates established in RCW 41.45.060((~~, 41.45.053,~~)) and 41.45.070.

(2) The state shall make contributions to the law enforcement officers' and fire fighters' retirement system plan 2 based on the rates established in RCW 41.45.060((~~, 41.45.053,~~)) and 41.45.070. The state treasurer shall transfer the required contributions each month on the basis of salary data provided by the department.

(3) The department shall bill employers, and the state shall make contributions to the law enforcement officers' and fire fighters' retirement system plan 2, using the combined rates established in RCW 41.45.060((~~, 41.45.053,~~)) and 41.45.070 regardless of the level of appropriation provided in the biennial budget. Any member of an affected retirement system may, by mandamus or other appropriate proceeding, require the transfer and payment of funds as directed in this section.

(4) The contributions received for the public employees' retirement system shall be allocated between the public employees' retirement

system plan 1 fund and the public employees' retirement system combined plan 2 and plan 3 fund as follows: The contributions necessary to fully fund the public employees' retirement system combined plan 2 and plan 3 employer contribution shall first be deposited in the public employees' retirement system combined plan 2 and plan 3 fund. All remaining public employees' retirement system employer contributions shall be deposited in the public employees' retirement system plan 1 fund.

(5) The contributions received for the teachers' retirement system shall be allocated between the plan 1 fund and the combined plan 2 and plan 3 fund as follows: The contributions necessary to fully fund the combined plan 2 and plan 3 employer contribution shall first be deposited in the combined plan 2 and plan 3 fund. All remaining teachers' retirement system employer contributions shall be deposited in the plan 1 fund.

(6) The contributions received for the school employees' retirement system shall be allocated between the public employees' retirement system plan 1 fund and the school employees' retirement system combined plan 2 and plan 3 fund as follows: The contributions necessary to fully fund the combined plan 2 and plan 3 employer contribution shall first be deposited in the combined plan 2 and plan 3 fund. All remaining school employees' retirement system employer contributions shall be deposited in the public employees' retirement system plan 1 fund.

(7) The contributions received for the law enforcement officers' and fire fighters' retirement system plan 2 shall be deposited in the law enforcement officers' and fire fighters' retirement system plan 2 fund.

<u>(8) The contributions received for the public safety employees' retirement system shall be allocated between the public employees' retirement system plan 1 fund and the public safety employees' retirement system plan 2 fund as follows: The contributions necessary to fully fund the plan 2 employer contribution shall first be deposited in the plan 2 fund. All remaining public safety employees' retirement system employer contributions shall be deposited in the public employees' retirement system plan 1 fund.</u>

Sec. 39. RCW 41.45.060 and 2003 c 294 s 10 and 2003 c 92 s 3 are each reenacted and amended to read as follows:

(1) The state actuary shall provide actuarial valuation results based on the economic assumptions and asset value smoothing technique included in RCW 41.45.035 or adopted by the council under RCW 41.45.030 or 41.45.035.

(2) Not later than September 30, 2002, and every two years thereafter, consistent with the economic assumptions and asset value smoothing technique included in RCW 41.45.035 or adopted under RCW 41.45.030 or 41.45.035, the council shall adopt and may make changes to:

(a) A basic state contribution rate for the law enforcement officers' and fire fighters' retirement system plan 1;

(b) Basic employer contribution rates for the public employees' retirement system, the teachers' retirement system, and the Washington state patrol retirement system to be used in the ensuing biennial period; and

(c) A basic employer contribution rate for the school employees' retirement system and the public safety employees' retirement system for funding both ((~~that~~)) those systems and the public employees' retirement system plan 1.

The contribution rates adopted by the council shall be subject to revision by the legislature.

(3) The employer and state contribution rates adopted by the council shall be the level percentages of pay that are needed:

(a) To fully amortize the total costs of the public employees' retirement system plan 1, the teachers' retirement system plan 1, and the law enforcement officers' and fire fighters' retirement system plan 1 not later than June 30, 2024; and

(b) To ((~~also continue to~~)) fully fund the public employees' retirement system plans 2 and 3, the teachers' retirement system plans 2 and 3, the public safety employees' retirement system plan 2, and the school employees' retirement system plans 2 and 3 in accordance with RCW 41.45.061, 41.45.067, and this section.

(4) The aggregate actuarial cost method shall be used to calculate a combined plan 2 and 3 employer contribution rate and a Washington state patrol retirement system contribution rate.

(5) The council shall immediately notify the directors of the office of financial management and department of retirement systems of the state and employer contribution rates adopted. The rates shall be effective for the ensuing biennial period, subject to any legislative modifications.

(6) ((~~The director of the department of retirement systems shall collect the rates established in RCW 41.45.053 through June 30, 2003. Thereafter,~~)) <u>T</u>he director shall collect those rates adopted by the council. The rates established in RCW ((~~41.45.053~~)) <u>41.45.054</u>, or by the council, shall be subject to revision by the ((~~council~~)) <u>legislature</u>.

Sec. 40. RCW 41.45.061 and 2001 2nd sp.s. c 11 s 13, 2001 2nd sp.s. c 11 s 12, and 2001 c 180 s 1 are each reenacted and amended to read as follows:

(1) The required contribution rate for members of the plan 2 teachers' retirement system shall be fixed at the rates in effect on July 1, 1996, subject to the following:

(a) Beginning September 1, 1997, except as provided in (b) of this subsection, the employee contribution rate shall not exceed the employer plan 2 and 3 rates adopted under RCW 41.45.060, ((~~41.45.053~~)) <u>41.45.054</u>, and 41.45.070 for the teachers' retirement system;

(b) In addition, the employee contribution rate for plan 2 shall be increased by fifty percent of the contribution rate increase caused by any plan 2 benefit increase passed after July 1, 1996;

(c) In addition, the employee contribution rate for plan 2 shall not be increased as a result of any distributions pursuant to section 309, chapter 341, Laws of 1998 and RCW 41.31A.020.

(2) The required contribution rate for members of the school employees' retirement system plan 2 shall equal the school employees' retirement system employer plan 2 and 3 contribution rate adopted under RCW 41.45.060, ((~~41.45.053~~)) <u>41.45.054</u>, and 41.45.070, except as provided in subsection (3) of this section.

(3) The member contribution rate for the school employees' retirement system plan 2 shall be increased by fifty percent of the contribution rate increase caused by any plan 2 benefit increase passed after September 1, 2000.

(4) The required contribution rate for members of the public employees' retirement system plan 2 shall be set at the same rate as the employer combined plan 2 and plan 3 rate.

(5) The required contribution rate for members of the law enforcement officers' and fire fighters' retirement system plan 2 shall be set at fifty percent of the cost of the retirement system.

(6) The employee contribution rates for plan 2 under subsections (3) and (4) of this section shall not include any increase as a result of any distributions pursuant to RCW 41.31A.020 and 41.31A.030.

(7) The required plan 2 and 3 contribution rates for employers shall be adopted in the manner described in RCW 41.45.060, ((~~41.45.053~~)) 41.45.054, and 41.45.070.

(8) The required contribution rate for members of the public safety employees' retirement system plan 2 shall be set at fifty percent of the cost of the retirement system.

Sec. 41. RCW 41.45.070 and 2003 1st sp.s. c 11 s 3 and 2003 c 92 s 5 are each reenacted and amended to read as follows:

(1) In addition to the basic employer contribution rate established in RCW 41.45.060 or 41.45.054, the department shall also charge employers of public employees' retirement system, teachers' retirement system, school employees' retirement system, public safety employees' retirement system, or Washington state patrol retirement system members an additional supplemental rate to pay for the cost of additional benefits, if any, granted to members of those systems. Except as provided in subsections (6) and (7) of this section, the supplemental contribution rates required by this section shall be calculated by the state actuary and shall be charged regardless of language to the contrary contained in the statute which authorizes additional benefits.

(2) In addition to the basic member, employer, and state contribution rate established in RCW 41.45.0604 for the law enforcement officers' and fire fighters' retirement system plan 2, the department shall also establish supplemental rates to pay for the cost of additional benefits, if any, granted to members of the law enforcement officers' and fire fighters' retirement system plan 2. Except as provided in subsection (6) of this section, these supplemental rates shall be calculated by the actuary retained by the law enforcement officers' and fire fighters' board and the state actuary through the

process provided in RCW 41.26.720(1)(a) and the state treasurer shall transfer the additional required contributions regardless of language to the contrary contained in the statute which authorizes the additional benefits.

(3) The supplemental rate charged under this section to fund benefit increases provided to active members of the public employees' retirement system plan 1, the teachers' retirement system plan 1, and Washington state patrol retirement system, shall be calculated as the level percentage of all members' pay needed to fund the cost of the benefit not later than June 30, 2024.

(4) The supplemental rate charged under this section to fund benefit increases provided to active and retired members of the public employees' retirement system plan 2 and plan 3, the teachers' retirement system plan 2 and plan 3, <u>the public safety employees' retirement system plan 2,</u> or the school employees' retirement system plan 2 and plan 3 shall be calculated as the level percentage of all members' pay needed to fund the cost of the benefit, as calculated under RCW 41.45.060, 41.45.061, or 41.45.067.

(5) The supplemental rate charged under this section to fund postretirement adjustments which are provided on a nonautomatic basis to current retirees shall be calculated as the percentage of pay needed to fund the adjustments as they are paid to the retirees. The supplemental rate charged under this section to fund automatic postretirement adjustments for active or retired members of the public employees' retirement system plan 1 and the teachers' retirement system plan 1 shall be calculated as the level percentage of pay needed to fund the cost of the automatic adjustments not later than June 30, 2024.

(6) A supplemental rate shall not be charged to pay for the cost of additional benefits granted to members pursuant to chapter 340, Laws of 1998.

(7) A supplemental rate shall not be charged to pay for the cost of additional benefits granted to members pursuant to chapter 41.31A RCW; section 309, chapter 341, Laws of 1998; or section 701, chapter 341, Laws of 1998.

Sec. 42. RCW 41.50.030 and 1998 c 341 s 501 are each amended to read as follows:

(1) As soon as possible but not more than one hundred and eighty days after March 19, 1976, there is transferred to the department of retirement systems, except as otherwise provided in this chapter, all powers, duties, and functions of:

(a) The Washington public employees' retirement system;

(b) The Washington state teachers' retirement system;

(c) The Washington law enforcement officers' and fire fighters' retirement system;

(d) The Washington state patrol retirement system;

(e) The Washington judicial retirement system; and

(f) The state treasurer with respect to the administration of the judges' retirement fund imposed pursuant to chapter 2.12 RCW.

(2) On July 1, 1996, there is transferred to the department all powers, duties, and functions of the deferred compensation committee.

(3) The department shall administer chapter 41.34 RCW.

(4) The department shall administer the Washington school employees' retirement system created under chapter 41.35 RCW.

(5) The department shall administer the Washington public safety employees' retirement system created under chapter 41.-- RCW (sections 1 through 4 and 6 through 35 of this act).

Sec. 43. RCW 41.50.060 and 1998 c 341 s 502 are each amended to read as follows:

The director may delegate the performance of such powers, duties, and functions, other than those relating to rule making, to employees of the department, but the director shall remain and be responsible for the official acts of the employees of the department.

The director shall be responsible for the public employees' retirement system, the teachers' retirement system, the school employees' retirement system, the judicial retirement system, the law enforcement officers' and fire fighters' retirement system, the public safety employees' retirement system, and the Washington state patrol retirement system. The director shall also be responsible for the deferred compensation program.

Sec. 44. RCW 41.50.075 and 2000 c 247 s 601 are each amended to read as follows:

(1) Two funds are hereby created and established in the state

treasury to be known as the Washington law enforcement officers' and fire fighters' system plan 1 retirement fund, and the Washington law enforcement officers' and fire fighters' system plan 2 retirement fund which shall consist of all moneys paid into them in accordance with the provisions of this chapter and chapter 41.26 RCW, whether such moneys take the form of cash, securities, or other assets. The plan 1 fund shall consist of all moneys paid to finance the benefits provided to members of the law enforcement officers' and fire fighters' retirement system plan 1, and the plan 2 fund shall consist of all moneys paid to finance the benefits provided to members of the law enforcement officers' and fire fighters' retirement system plan 2.

(2) All of the assets of the Washington state teachers' retirement system shall be credited according to the purposes for which they are held, to two funds to be maintained in the state treasury, namely, the teachers' retirement system plan 1 fund and the teachers' retirement system combined plan 2 and 3 fund. The plan 1 fund shall consist of all moneys paid to finance the benefits provided to members of the Washington state teachers' retirement system plan 1, and the combined plan 2 and 3 fund shall consist of all moneys paid to finance the benefits provided to members of the Washington state teachers' retirement system plan 2 and 3.

(3) There is hereby established in the state treasury two separate funds, namely the public employees' retirement system plan 1 fund and the public employees' retirement system combined plan 2 and plan 3 fund. The plan 1 fund shall consist of all moneys paid to finance the benefits provided to members of the public employees' retirement system plan 1, and the combined plan 2 and plan 3 fund shall consist of all moneys paid to finance the benefits provided to members of the public employees' retirement system plans 2 and 3.

(4) There is hereby established in the state treasury the school employees' retirement system combined plan 2 and 3 fund. The combined plan 2 and 3 fund shall consist of all moneys paid to finance the benefits provided to members of the school employees' retirement system plan 2 and plan 3.

<u>(5) There is hereby established in the state treasury the public safety employees' retirement system plan 2 fund. The plan 2 fund shall consist of all moneys paid to finance the benefits provided to members of the public safety employees' retirement system plan 2.</u>

Sec. 45. RCW 41.50.080 and 1998 c 341 s 504 are each amended to read as follows:

The state investment board shall provide for the investment of all funds of the Washington public employees' retirement system, the teachers' retirement system, the school employees' retirement system, the Washington law enforcement officers' and fire fighters' retirement system, the Washington state patrol retirement system, the Washington judicial retirement system, the Washington public safety employees' retirement system, and the judges' retirement fund, pursuant to RCW 43.84.150, and may sell or exchange investments acquired in the exercise of that authority.

Sec. 46. RCW 41.50.110 and 2003 1st sp.s. c 25 s 914 are each amended to read as follows:

(1) Except as provided by RCW 41.50.255 and subsection (6) of this section, all expenses of the administration of the department, the expenses of administration of the retirement systems, and the expenses of the administration of the office of the state actuary created in chapters 2.10, 2.12, 41.26, 41.32, 41.40, 41.34, 41.35, 41.-- (sections 1 through 4 and 6 through 35 of this act), 43.43, and 44.44 RCW shall be paid from the department of retirement systems expense fund.

(2) In order to reimburse the department of retirement systems expense fund on an equitable basis the department shall ascertain and report to each employer, as defined in RCW 41.26.030, 41.32.010, 41.35.010, section 2 of this act, or 41.40.010, the sum necessary to defray its proportional share of the entire expense of the administration of the retirement system that the employer participates in during the ensuing biennium or fiscal year whichever may be required. Such sum is to be computed in an amount directly proportional to the estimated entire expense of the administration as the ratio of monthly salaries of the employer's members bears to the total salaries of all members in the entire system. It shall then be the duty of all such employers to include in their budgets or otherwise provide the amounts so required.

(3) The department shall compute and bill each employer, as defined in RCW 41.26.030, 41.32.010, 41.35.010, section 2 of this act, or 41.40.010, at the end of each month for the amount due for that month to the department of retirement systems expense fund and the same shall

be paid as are its other obligations. Such computation as to each employer shall be made on a percentage rate of salary established by the department. However, the department may at its discretion establish a system of billing based upon calendar year quarters in which event the said billing shall be at the end of each such quarter.

(4) The director may adjust the expense fund contribution rate for each system at any time when necessary to reflect unanticipated costs or savings in administering the department.

(5) An employer who fails to submit timely and accurate reports to the department may be assessed an additional fee related to the increased costs incurred by the department in processing the deficient reports. Fees paid under this subsection shall be deposited in the retirement system expense fund.

(a) Every six months the department shall determine the amount of an employer's fee by reviewing the timeliness and accuracy of the reports submitted by the employer in the preceding six months. If those reports were not both timely and accurate the department may prospectively assess an additional fee under this subsection.

(b) An additional fee assessed by the department under this subsection shall not exceed fifty percent of the standard fee.

(c) The department shall adopt rules implementing this section.

(6) Expenses other than those under RCW 41.34.060(3) shall be paid pursuant to subsection (1) of this section.

(7) During the 2003-2005 fiscal biennium, the legislature may transfer from the department of retirement systems' expense fund to the state general fund such amounts as reflect the excess fund balance of the fund.

Sec. 47. RCW 41.50.150 and 1998 c 341 s 509 are each amended to read as follows:

(1) The employer of any employee whose retirement benefits are based in part on excess compensation, as defined in this section, shall, upon receipt of a billing from the department, pay into the appropriate retirement system the present value at the time of the employee's retirement of the total estimated cost of all present and future benefits from the retirement system attributable to the excess compensation. The state actuary shall determine the estimated cost using the same method and procedure as is used in preparing fiscal note

costs for the legislature. However, the director may in the director's discretion decline to bill the employer if the amount due is less than fifty dollars. Accounts unsettled within thirty days of the receipt of the billing shall be assessed an interest penalty of one percent of the amount due for each month or fraction thereof beyond the original thirty-day period.

(2) "Excess compensation," as used in this section, includes the following payments, if used in the calculation of the employee's retirement allowance:

(a) A cash out of unused annual leave in excess of two hundred forty hours of such leave. "Cash out" for purposes of this subsection means:

(i) Any payment in lieu of an accrual of annual leave; or

(ii) Any payment added to salary or wages, concurrent with a reduction of annual leave;

(b) A cash out of any other form of leave;

(c) A payment for, or in lieu of, any personal expense or transportation allowance to the extent that payment qualifies as reportable compensation in the member's retirement system;

(d) The portion of any payment, including overtime payments, that exceeds twice the regular daily or hourly rate of pay; and

(e) Any termination or severance payment.

(3) This section applies to the retirement systems listed in RCW 41.50.030 and to retirements occurring on or after March 15, 1984. Nothing in this section is intended to amend or determine the meaning of any definition in chapter 2.10, 2.12, 41.26, 41.32, 41.40, 41.35, 41.-- (sections 1 through 4 and 6 through 35 of this act), or 43.43 RCW or to determine in any manner what payments are includable in the calculation of a retirement allowance under such chapters.

(4) An employer is not relieved of liability under this section because of the death of any person either before or after the billing from the department.

Sec. 48. RCW 41.50.152 and 1998 c 341 s 510 are each amended to read as follows:

(1) Except as limited by subsection (3) of this section, the governing body of an employer under chapter 41.32, 41.35, 41.-- (sections 1 through 4 and 6 through 35 of this act), or 41.40 RCW shall

comply with the provisions of subsection (2) of this section prior to executing a contract or collective bargaining agreement with members under chapter 41.32, 41.35, 41.-- (sections 1 through 4 and 6 through 35 of this act), or 41.40 RCW which provides for:

(a) A cash out of unused annual leave in excess of two hundred forty hours of such leave. "Cash out" for purposes of this subsection means any payment in lieu of an accrual of annual leave or any payment added to regular salary, concurrent with a reduction of annual leave;

(b) A cash out of any other form of leave;

(c) A payment for, or in lieu of, any personal expense or transportation allowance;

(d) The portion of any payment, including overtime payments, that exceeds twice the regular rate of pay; or

(e) Any other termination or severance payment.

(2) Any governing body entering into a contract that includes a compensation provision listed in subsection (1) of this section shall do so only after public notice in compliance with the open public meetings act, chapter 42.30 RCW. This notification requirement may be accomplished as part of the approval process for adopting a contract in whole, and does not require separate or additional open public meetings. At the public meeting, full disclosure shall be made of the nature of the proposed compensation provision, and the employer's estimate of the excess compensation billings under RCW 41.50.150 that the employing entity would have to pay as a result of the proposed compensation provision. The employer shall notify the department of its compliance with this section at the time the department bills the employer under RCW 41.50.150 for the pension impact of compensation provisions listed in subsection (1) of this section that are adopted after July 23, 1995.

(3) The requirements of subsection (2) of this section shall not apply to the adoption of a compensation provision listed in subsection (1) of this section if the compensation would not be includable in calculating benefits under chapter 41.32, 41.35, 41.-- (sections 1 through 4 and 6 through 35 of this act), or 41.40 RCW for the employees covered by the compensation provision.

Sec. 49. RCW 41.50.255 and 1998 c 341 s 511 are each amended to read as follows:

The director is authorized to pay from the interest earnings of the trust funds of the public employees' retirement system, the teachers' retirement system, the Washington state patrol retirement system, the Washington judicial retirement system, the judges' retirement system, the school ((~~district~~)) employees' retirement system, the public safety employees' retirement system, or the law enforcement officers' and fire fighters' retirement system lawful obligations of the appropriate system for legal expenses and medical expenses which expenses are primarily incurred for the purpose of protecting the appropriate trust fund or are incurred in compliance with statutes governing such funds.

The term "legal expense" includes, but is not limited to, legal services provided through the legal services revolving fund, fees for expert witnesses, travel expenses, fees for court reporters, cost of transcript preparation, and reproduction of documents.

The term "medical costs" includes, but is not limited to, expenses for the medical examination or reexamination of members or retirees, the costs of preparation of medical reports, and fees charged by medical professionals for attendance at discovery proceedings or hearings.

The director may also pay from the interest earnings of the trust funds specified in this section costs incurred in investigating fraud and collecting overpayments, including expenses incurred to review and investigate cases of possible fraud against the trust funds and collection agency fees and other costs incurred in recovering overpayments. Recovered funds must be returned to the appropriate trust funds.

Sec. 50. RCW 41.50.500 and 2000 c 247 s 603 are each amended to read as follows:

Unless the context clearly requires otherwise, the definitions in this section apply throughout RCW 41.50.500 through 41.50.650, 41.50.670 through 41.50.720, and 26.09.138.

(1) "Benefits" means periodic retirement payments or a withdrawal of accumulated contributions.

(2) "Disposable benefits" means that part of the benefits of an individual remaining after the deduction from those benefits of any amount required by law to be withheld. The term "required by law to be withheld" does not include any deduction elective to the member.

(3) "Dissolution order" means any judgment, decree, or order of spousal maintenance, property division, or court-approved property settlement incident to a decree of divorce, dissolution, invalidity, or legal separation issued by the superior court of the state of Washington or a judgment, decree, or other order of spousal support issued by a court of competent jurisdiction in another state or country, that has been registered or otherwise made enforceable in this state.

(4) "Mandatory benefits assignment order" means an order issued to the department of retirement systems pursuant to RCW 41.50.570 to withhold and deliver benefits payable to an obligor under chapter 2.10, 2.12, 41.26, 41.32, 41.40, 41.35, <u>41.-- (sections 1 through 4 and 6 through 35 of this act),</u> or 43.43 RCW.

(5) "Obligee" means an ex spouse or spouse to whom a duty of spousal maintenance or property division obligation is owed.

(6) "Obligor" means the spouse or ex spouse owing a duty of spousal maintenance or a property division obligation.

(7) "Periodic retirement payments" means periodic payments of retirement allowances, including but not limited to service retirement allowances, disability retirement allowances, and survivors' allowances. The term does not include a withdrawal of accumulated contributions.

(8) "Property division obligation" means any outstanding court-ordered property division or court-approved property settlement obligation incident to a decree of divorce, dissolution, or legal separation.

(9) "Standard allowance" means a benefit payment option selected under RCW 2.10.146(1)(a), 41.26.460(1)(a), 41.32.785(1)(a), 41.40.188(1)(a), 41.40.660(1), 41.40.845(1)(a), <u>section 23 of this act,</u> or 41.35.220 that ceases upon the death of the retiree. Standard allowance also means the benefit allowance provided under RCW 2.10.110, 2.10.130, 43.43.260, 41.26.100, 41.26.130(1)(a), or chapter 2.12 RCW. Standard allowance also means the maximum retirement allowance available under RCW 41.32.530(1) following member withdrawal of accumulated contributions, if any.

(10) "Withdrawal of accumulated contributions" means a lump sum payment to a retirement system member of all or a part of the member's

accumulated contributions, including accrued interest, at the request of the member including any lump sum amount paid upon the death of the member.

Sec. 51. RCW 41.50.670 and 2002 c 158 s 5 are each amended to read as follows:

(1) Nothing in this chapter regarding mandatory assignment of benefits to enforce a spousal maintenance obligation shall abridge the right of an obligee to direct payments of retirement benefits to satisfy a property division obligation ordered pursuant to a court decree of dissolution or legal separation or any court order or court-approved property settlement agreement incident to any court decree of dissolution or legal separation as provided in RCW 2.10.180, 2.12.090, ((~~41.04.310, 41.04.320, 41.04.330,~~)) 41.26.053, 41.26.162, 41.32.052, 41.35.100, 41.34.070(4), 41.40.052, 43.43.310, section 12 of this act, or 26.09.138, as those statutes existed before July 1, 1987, and as those statutes exist on and after July 28, 1991. The department shall pay benefits under this chapter in a lump sum or as a portion of periodic retirement payments as expressly provided by the dissolution order. A dissolution order may not order the department to pay a periodic retirement payment or lump sum unless that payment is specifically authorized under the provisions of chapter 2.10, 2.12, 41.26, 41.32, 41.35, 41.34, 41.40, 41.-- (sections 1 through 4 and 6 through 35 of this act), or 43.43 RCW, as applicable.

(2) The department shall pay directly to an obligee the amount of periodic retirement payments or lump sum payment, as appropriate, specified in the dissolution order if the dissolution order filed with the department pursuant to subsection (1) of this section includes a provision that states in the following form:

If . . . . . . (the obligor) receives periodic retirement payments as defined in RCW 41.50.500, the department of retirement systems shall pay to . . . . . . (the obligee) . . . . . . dollars from such payments or . . . percent of such payments. If the obligor's debt is expressed as a percentage of his or her periodic retirement payment and the obligee does not have a survivorship interest in the obligor's benefit, the amount received by the obligee shall be the percentage of the periodic retirement payment that the obligor would have received had he or she selected a standard allowance.

If . . . . . . (the obligor) requests or has requested a withdrawal of accumulated contributions as defined in RCW 41.50.500, or becomes eligible for a lump sum death benefit, the department of retirement systems shall pay to . . . . . . (the obligee) . . . . . . dollars plus interest at the rate paid by the department of retirement systems on member contributions. Such interest to accrue from the date of this order's entry with the court of record.

(3) This section does not require a member to select a standard allowance upon retirement nor does it require the department to recalculate the amount of a retiree's periodic retirement payment based on a change in survivor option.

(4) A court order under this section may not order the department to pay more than seventy-five percent of an obligor's periodic retirement payment to an obligee.

(5) Persons whose court decrees were entered between July 1, 1987, and July 28, 1991, shall also be entitled to receive direct payments of retirement benefits to satisfy court-ordered property divisions if the dissolution orders comply or are modified to comply with this section and RCW 41.50.680 through 41.50.720 and, as applicable, RCW 2.10.180, 2.12.090, 41.26.053, 41.32.052, 41.35.100, 41.34.070, 41.40.052, 43.43.310, <u>section 12 of this act,</u> and 26.09.138.

(6) The obligee must file a copy of the dissolution order with the department within ninety days of that order's entry with the court of record.

(7) A division of benefits pursuant to a dissolution order under this section shall be based upon the obligor's gross benefit prior to any deductions. If the department is required to withhold a portion of the member's benefit pursuant to 26 U.S.C. Sec. 3402 and the sum of that amount plus the amount owed to the obligee exceeds the total benefit, the department shall satisfy the withholding requirements under 26 U.S.C. Sec. 3402 and then pay the remainder to the obligee. The provisions of this subsection do not apply to amounts withheld pursuant to 26 U.S.C. Sec. 3402(i).

Sec. 52. RCW 41.50.790 and 2002 c 26 s 8 are each amended to read as follows:

(1) The department shall designate an obligee as a survivor beneficiary of a member under RCW 2.10.146, 41.26.460, 41.32.530,

41.32.785, 41.32.851, 41.35.220, 41.40.188, 41.40.660, <u>section 23 of this act,</u> or 41.40.845 if the department has been served by registered or certified mail with a dissolution order as defined in RCW 41.50.500 at least thirty days prior to the member's retirement. The department's duty to comply with the dissolution order arises only if the order contains a provision that states in substantially the following form:

> When . . . . . . (the obligor) applies for retirement the department shall designate . . . . . . (the obligee) as survivor beneficiary with a . . . . . . survivor benefit.

The survivor benefit designated in the dissolution order must be consistent with the survivor benefit options authorized by statute or administrative rule.

(2) The obligee's entitlement to a survivor benefit pursuant to a dissolution order filed with the department in compliance with subsection (1) of this section shall cease upon the death of the obligee.

(3)(a) A subsequent dissolution order may order the department to divide a survivor benefit between a survivor beneficiary and an alternate payee. In order to divide a survivor benefit between more than one payee, the dissolution order must:

(i) Be ordered by a court of competent jurisdiction following notice to the survivor beneficiary;

(ii) Contain a provision that complies with subsection (1) of this section designating the survivor beneficiary;

(iii) Contain a provision clearly identifying the alternate payee or payees; and

(iv) Specify the proportional division of the benefit between the survivor beneficiary and the alternate payee or payees.

(b) The department will calculate actuarial adjustment for the court-ordered survivor benefit based upon the life of the survivor beneficiary.

(c) If the survivor beneficiary dies, the department shall terminate the benefit. If the alternate payee predeceases the survivor beneficiary, all entitlement of the alternate payee to a benefit ceases and the entire benefit will revert to the survivor beneficiary.

(d) For purposes of this section, "survivor beneficiary" means:

(i) The obligee designated in the provision of dissolution filed in compliance with subsection (1) of this section; or

(ii) In the event of more than one dissolution order, the obligee named in the first decree of dissolution received by the department.

(e) For purposes of this section, "alternate payee" means a person, other than the survivor beneficiary, who is granted a percentage of a survivor benefit pursuant to a dissolution order.

(4) The department shall under no circumstances be held liable for not designating an obligee as a survivor beneficiary under subsection (1) of this section if the dissolution order or amendment thereto is not served on the department by registered or certified mail at least thirty days prior to the member's retirement.

(5) If a dissolution order directing designation of a survivor beneficiary has been previously filed with the department in compliance with this section, no additional obligation shall arise on the part of the department upon filing of a subsequent dissolution order unless the subsequent dissolution order:

(a) Specifically amends or supersedes the dissolution order already on file with the department; and

(b) Is filed with the department by registered or certified mail at least thirty days prior to the member's retirement.

(6) The department shall designate a court-ordered survivor beneficiary pursuant to a dissolution order filed with the department before June 6, 1996, only if the order:

(a) Specifically directs the member or department to make such selection;

(b) Specifies the survivor option to be selected; and

(c) The member retires after June 6, 1996.

Sec. 53. RCW 41.40.010 and 2003 c 412 s 4 are each amended to read as follows:

As used in this chapter, unless a different meaning is plainly required by the context:

(1) "Retirement system" means the public employees' retirement system provided for in this chapter.

(2) "Department" means the department of retirement systems created in chapter 41.50 RCW.

(3) "State treasurer" means the treasurer of the state of Washington.

(4)(a) "Employer" for plan 1 members, means every branch, department, agency, commission, board, and office of the state, any political subdivision or association of political subdivisions of the state admitted into the retirement system, and legal entities authorized by RCW 35.63.070 and 36.70.060 or chapter 39.34 RCW; and the term shall also include any labor guild, association, or organization the membership of a local lodge or division of which is comprised of at least forty percent employees of an employer (other than such labor guild, association, or organization) within this chapter. The term may also include any city of the first class that has its own retirement system.

(b) "Employer" for plan 2 and plan 3 members, means every branch, department, agency, commission, board, and office of the state, and any political subdivision and municipal corporation of the state admitted into the retirement system, including public agencies created pursuant to RCW 35.63.070, 36.70.060, and 39.34.030; except that after August 31, 2000, school districts and educational service districts will no longer be employers for the public employees' retirement system plan 2.

(5) "Member" means any employee included in the membership of the retirement system, as provided for in RCW 41.40.023. RCW 41.26.045 does not prohibit a person otherwise eligible for membership in the retirement system from establishing such membership effective when he or she first entered an eligible position.

(6) "Original member" of this retirement system means:

(a) Any person who became a member of the system prior to April 1, 1949;

(b) Any person who becomes a member through the admission of an employer into the retirement system on and after April 1, 1949, and prior to April 1, 1951;

(c) Any person who first becomes a member by securing employment with an employer prior to April 1, 1951, provided the member has rendered at least one or more years of service to any employer prior to October 1, 1947;

(d) Any person who first becomes a member through the admission of an employer into the retirement system on or after April 1, 1951, provided, such person has been in the regular employ of the employer for at least six months of the twelve-month period preceding the said admission date;

(e) Any member who has restored all contributions that may have been withdrawn as provided by RCW 41.40.150 and who on the effective date of the individual's retirement becomes entitled to be credited with ten years or more of membership service except that the provisions relating to the minimum amount of retirement allowance for the member upon retirement at age seventy as found in RCW 41.40.190(4) shall not apply to the member;

(f) Any member who has been a contributor under the system for two or more years and who has restored all contributions that may have been withdrawn as provided by RCW 41.40.150 and who on the effective date of the individual's retirement has rendered five or more years of service for the state or any political subdivision prior to the time of the admission of the employer into the system; except that the provisions relating to the minimum amount of retirement allowance for the member upon retirement at age seventy as found in RCW 41.40.190(4) shall not apply to the member.

(7) "New member" means a person who becomes a member on or after April 1, 1949, except as otherwise provided in this section.

(8)(a) "Compensation earnable" for plan 1 members, means salaries or wages earned during a payroll period for personal services and where the compensation is not all paid in money, maintenance compensation shall be included upon the basis of the schedules established by the member's employer.

(i) "Compensation earnable" for plan 1 members also includes the following actual or imputed payments, which are not paid for personal services:

(A) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wage which the individual would have earned during a payroll period shall be considered compensation earnable and the individual shall receive the equivalent service credit;

(B) If a leave of absence is taken by an individual for the purpose of serving in the state legislature, the salary which would have been received for the position from which the leave of absence was taken, shall be considered as compensation earnable if the employee's contribution is paid by the employee and the employer's contribution is paid by the employer or employee;

(C) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and 72.09.240;

(D) Compensation that a member would have received but for a disability occurring in the line of duty only as authorized by RCW 41.40.038;

(E) Compensation that a member receives due to participation in the leave sharing program only as authorized by RCW 41.04.650 through 41.04.670; and

(F) Compensation that a member receives for being in standby status. For the purposes of this section, a member is in standby status when not being paid for time actually worked and the employer requires the member to be prepared to report immediately for work, if the need arises, although the need may not arise.

(ii) "Compensation earnable" does not include:

(A) Remuneration for unused sick leave authorized under RCW 41.04.340, 28A.400.210, or 28A.310.490;

(B) Remuneration for unused annual leave in excess of thirty days as authorized by RCW 43.01.044 and 43.01.041.

(b) "Compensation earnable" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude nonmoney maintenance compensation and lump sum or other payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

"Compensation earnable" for plan 2 and plan 3 members also includes the following actual or imputed payments, which are not paid for personal services:

(i) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wage which the individual would have earned during a payroll period shall be considered compensation earnable to the extent provided above, and the individual shall receive the equivalent service credit;

(ii) In any year in which a member serves in the legislature, the member shall have the option of having such member's compensation earnable be the greater of:

(A) The compensation earnable the member would have received had such member not served in the legislature; or

(B) Such member's actual compensation earnable received for nonlegislative public employment and legislative service combined. Any additional contributions to the retirement system required because compensation earnable under (b)(ii)(A) of this subsection is greater than compensation earnable under (b)(ii)(B) of this subsection shall be paid by the member for both member and employer contributions;

(iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and 72.09.240;

(iv) Compensation that a member would have received but for a disability occurring in the line of duty only as authorized by RCW 41.40.038;

(v) Compensation that a member receives due to participation in the leave sharing program only as authorized by RCW 41.04.650 through 41.04.670; and

(vi) Compensation that a member receives for being in standby status. For the purposes of this section, a member is in standby status when not being paid for time actually worked and the employer requires the member to be prepared to report immediately for work, if the need arises, although the need may not arise.

(9)(a) "Service" for plan 1 members, except as provided in RCW 41.40.088, means periods of employment in an eligible position or positions for one or more employers rendered to any employer for which compensation is paid, and includes time spent in office as an elected or appointed official of an employer. Compensation earnable earned in full time work for seventy hours or more in any given calendar month shall constitute one service credit month except as provided in RCW 41.40.088. Compensation earnable earned for less than seventy hours in any calendar month shall constitute one-quarter service credit month of service except as provided in RCW 41.40.088. Only service credit months and one-quarter service credit months shall be counted in the computation of any retirement allowance or other benefit provided for in this chapter. Any fraction of a year of service shall be taken into account in the computation of such retirement allowance or benefits. Time spent in standby status, whether compensated or not, is not service.

(i) Service by a state employee officially assigned by the state on a temporary basis to assist another public agency, shall be considered as service as a state employee: PROVIDED, That service to any other public agency shall not be considered service as a state employee if such service has been used to establish benefits in any other public retirement system.

(ii) An individual shall receive no more than a total of twelve service credit months of service during any calendar year. If an individual is employed in an eligible position by one or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service for seventy or more hours is rendered.

(iii) A school district employee may count up to forty-five days of sick leave as creditable service solely for the purpose of determining eligibility to retire under RCW 41.40.180 as authorized by RCW 28A.400.300. For purposes of plan 1 "forty-five days" as used in RCW 28A.400.300 is equal to two service credit months. Use of less than forty-five days of sick leave is creditable as allowed under this subsection as follows:

(A) Less than twenty-two days equals one-quarter service credit month;

(B) Twenty-two days equals one service credit month;

(C) More than twenty-two days but less than forty-five days equals one and one-quarter service credit month.

(b) "Service" for plan 2 and plan 3 members, means periods of employment by a member in an eligible position or positions for one or more employers for which compensation earnable is paid. Compensation earnable earned for ninety or more hours in any calendar month shall constitute one service credit month except as provided in RCW 41.40.088. Compensation earnable earned for at least seventy hours but less than ninety hours in any calendar month shall constitute one-half service credit month of service. Compensation earnable earned for less than seventy hours in any calendar month shall constitute one-quarter service credit month of service. Time spent in standby status, whether compensated or not, is not service.

Any fraction of a year of service shall be taken into account in the computation of such retirement allowance or benefits.

(i) Service in any state elective position shall be deemed to be full time service, except that persons serving in state elective positions who are members of the Washington school employees' retirement system, teachers' retirement system, public safety employees' retirement system, or law enforcement officers' and fire fighters' retirement system at the time of election or appointment to such position may elect to continue membership in the Washington school employees' retirement system, teachers' retirement system, public safety employees' retirement system, or law enforcement officers' and fire fighters' retirement system.

(ii) A member shall receive a total of not more than twelve service credit months of service for such calendar year. If an individual is employed in an eligible position by one or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service for ninety or more hours is rendered.

(iii) Up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.40.180 as authorized by RCW 28A.400.300. For purposes of plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is equal to two service credit months. Use of less than forty-five days of sick leave is creditable as allowed under this subsection as follows:

(A) Less than eleven days equals one-quarter service credit month;

(B) Eleven or more days but less than twenty-two days equals one-half service credit month;

(C) Twenty-two days equals one service credit month;

(D) More than twenty-two days but less than thirty-three days equals one and one-quarter service credit month;

(E) Thirty-three or more days but less than forty-five days equals one and one-half service credit month.

(10) "Service credit year" means an accumulation of months of service credit which is equal to one when divided by twelve.

(11) "Service credit month" means a month or an accumulation of months of service credit which is equal to one.

(12) "Prior service" means all service of an original member rendered to any employer prior to October 1, 1947.

(13) "Membership service" means:

(a) All service rendered, as a member, after October 1, 1947;

(b) All service after October 1, 1947, to any employer prior to the time of its admission into the retirement system for which member and employer contributions, plus interest as required by RCW 41.50.125, have been paid under RCW 41.40.056 or 41.40.057;

(c) Service not to exceed six consecutive months of probationary service rendered after April 1, 1949, and prior to becoming a member, in the case of any member, upon payment in full by such member of the total amount of the employer's contribution to the retirement fund which would have been required under the law in effect when such probationary service was rendered if the member had been a member during such period, except that the amount of the employer's contribution shall be calculated by the director based on the first month's compensation earnable as a member;

(d) Service not to exceed six consecutive months of probationary service, rendered after October 1, 1947, and before April 1, 1949, and prior to becoming a member, in the case of any member, upon payment in full by such member of five percent of such member's salary during said period of probationary service, except that the amount of the employer's contribution shall be calculated by the director based on the first month's compensation earnable as a member.

(14)(a) "Beneficiary" for plan 1 members, means any person in receipt of a retirement allowance, pension or other benefit provided by this chapter.

(b) "Beneficiary" for plan 2 and plan 3 members, means any person in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by another person.

(15) "Regular interest" means such rate as the director may determine.

(16) "Accumulated contributions" means the sum of all contributions standing to the credit of a member in the member's individual account,

including any amount paid under RCW 41.50.165(2), together with the regular interest thereon.

(17)(a) "Average final compensation" for plan 1 members, means the annual average of the greatest compensation earnable by a member during any consecutive two year period of service credit months for which service credit is allowed; or if the member has less than two years of service credit months then the annual average compensation earnable during the total years of service for which service credit is allowed.

(b) "Average final compensation" for plan 2 and plan 3 members, means the member's average compensation earnable of the highest consecutive sixty months of service credit months prior to such member's retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under RCW 41.40.710(2).

(18) "Final compensation" means the annual rate of compensation earnable by a member at the time of termination of employment.

(19) "Annuity" means payments for life derived from accumulated contributions of a member. All annuities shall be paid in monthly installments.

(20) "Pension" means payments for life derived from contributions made by the employer. All pensions shall be paid in monthly installments.

(21) "Retirement allowance" means the sum of the annuity and the pension.

(22) "Employee" or "employed" means a person who is providing services for compensation to an employer, unless the person is free from the employer's direction and control over the performance of work. The department shall adopt rules and interpret this subsection consistent with common law.

(23) "Actuarial equivalent" means a benefit of equal value when computed upon the basis of such mortality and other tables as may be adopted by the director.

(24) "Retirement" means withdrawal from active service with a retirement allowance as provided by this chapter.

(25) "Eligible position" means:

(a) Any position that, as defined by the employer, normally requires five or more months of service a year for which regular compensation for at least seventy hours is earned by the occupant thereof. For purposes of this chapter an employer shall not define "position" in such a manner that an employee's monthly work for that employer is divided into more than one position;

(b) Any position occupied by an elected official or person appointed directly by the governor, or appointed by the chief justice of the supreme court under RCW 2.04.240(2) or 2.06.150(2), for which compensation is paid.

(26) "Ineligible position" means any position which does not conform with the requirements set forth in subsection (25) of this section.

(27) "Leave of absence" means the period of time a member is authorized by the employer to be absent from service without being separated from membership.

(28) "Totally incapacitated for duty" means total inability to perform the duties of a member's employment or office or any other work for which the member is qualified by training or experience.

(29) "Retiree" means any person who has begun accruing a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer while a member.

(30) "Director" means the director of the department.

(31) "State elective position" means any position held by any person elected or appointed to statewide office or elected or appointed as a member of the legislature.

(32) "State actuary" or "actuary" means the person appointed pursuant to RCW 44.44.010(2).

(33) "Plan 1" means the public employees' retirement system, plan 1 providing the benefits and funding provisions covering persons who first became members of the system prior to October 1, 1977.

(34) "Plan 2" means the public employees' retirement system, plan 2 providing the benefits and funding provisions covering persons who first became members of the system on and after October 1, 1977, and are not included in plan 3.

(35) "Plan 3" means the public employees' retirement system, plan 3 providing the benefits and funding provisions covering persons who:

(a) First become a member on or after:

(i) March 1, 2002, and are employed by a state agency or institute of higher education and who did not choose to enter plan 2; or

(ii) September 1, 2002, and are employed by other than a state agency or institute of higher education and who did not choose to enter plan 2; or

(b) Transferred to plan 3 under RCW 41.40.795.

(36) "Index" means, for any calendar year, that year's annual average consumer price index, Seattle, Washington area, for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

(37) "Index A" means the index for the year prior to the determination of a postretirement adjustment.

(38) "Index B" means the index for the year prior to index A.

(39) "Index year" means the earliest calendar year in which the index is more than sixty percent of index A.

(40) "Adjustment ratio" means the value of index A divided by index B.

(41) "Annual increase" means, initially, fifty-nine cents per month per year of service which amount shall be increased each July 1st by three percent, rounded to the nearest cent.

(42) "Separation from service" occurs when a person has terminated all employment with an employer. Separation from service or employment does not occur, and if claimed by an employer or employee may be a violation of RCW 41.40.055, when an employee and employer have a written or oral agreement to resume employment with the same employer following termination.

(43) "Member account" or "member's account" for purposes of plan 3 means the sum of the contributions and earnings on behalf of the member in the defined contribution portion of plan 3.

Sec. 54. RCW 41.26.500 and 1998 c 341 s 604 are each amended to read as follows:

(1) No retiree under the provisions of plan 2 shall be eligible to receive such retiree's monthly retirement allowance if he or she is employed in an eligible position as defined in RCW 41.40.010, 41.32.010, section 2 of this act, or 41.35.010, or as a law enforcement officer or fire fighter as defined in RCW 41.26.030. If a retiree's benefits have been suspended under this section, his or her benefits shall be reinstated when the retiree terminates the employment that

caused his or her benefits to be suspended. Upon reinstatement, the retiree's benefits shall be actuarially recomputed pursuant to the rules adopted by the department.

(2) The department shall adopt rules implementing this section.

Sec. 55. RCW 41.32.800 and 1998 c 341 s 605 are each amended to read as follows:

(1) Except as provided in RCW 41.32.802, no retiree under the provisions of plan 2 shall be eligible to receive such retiree's monthly retirement allowance if he or she is employed in an eligible position as defined in RCW 41.40.010, 41.32.010, section 2 of this act, or 41.35.010, or as a law enforcement officer or fire fighter as defined in RCW 41.26.030.

If a retiree's benefits have been suspended under this section, his or her benefits shall be reinstated when the retiree terminates the employment that caused his or her benefits to be suspended. Upon reinstatement, the retiree's benefits shall be actuarially recomputed pursuant to the rules adopted by the department.

(2) The department shall adopt rules implementing this section.

Sec. 56. RCW 41.35.230 and 1998 c 341 s 24 are each amended to read as follows:

(1) Except as provided in RCW 41.35.060, no retiree under the provisions of plan 2 shall be eligible to receive such retiree's monthly retirement allowance if he or she is employed in an eligible position as defined in RCW 41.35.010, ((~~RCW~~)) 41.40.010, section 2 of this act, or 41.32.010, or as a law enforcement officer or fire fighter as defined in RCW 41.26.030, except that a retiree who ends his or her membership in the retirement system pursuant to RCW 41.40.023(3)(b) is not subject to this section if the retiree's only employment is as an elective official.

(2) If a retiree's benefits have been suspended under this section, his or her benefits shall be reinstated when the retiree terminates the employment that caused his or her benefits to be suspended. Upon reinstatement, the retiree's benefits shall be actuarially recomputed pursuant to the rules adopted by the department.

(3) The department shall adopt rules implementing this section.

Sec. 57. RCW 41.40.690 and 1998 c 341 s 606 are each amended to read as follows:

(1) Except as provided in RCW 41.40.037, no retiree under the provisions of plan 2 shall be eligible to receive such retiree's monthly retirement allowance if he or she is employed in an eligible position as defined in RCW 41.40.010, 41.32.010, section 2 of this act, or 41.35.010, or as a law enforcement officer or fire fighter as defined in RCW 41.26.030, except that a retiree who ends his or her membership in the retirement system pursuant to RCW 41.40.023(3)(b) is not subject to this section if the retiree's only employment is as an elective official of a city or town.

(2) If a retiree's benefits have been suspended under this section, his or her benefits shall be reinstated when the retiree terminates the employment that caused his or her benefits to be suspended. Upon reinstatement, the retiree's benefits shall be actuarially recomputed pursuant to the rules adopted by the department.

(3) The department shall adopt rules implementing this section.

Sec. 58. RCW 41.54.010 and 1998 c 341 s 702 are each amended to read as follows:

The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Base salary" means salaries or wages earned by a member of a system during a payroll period for personal services and includes wages and salaries deferred under provisions of the United States internal revenue code, but shall exclude overtime payments, nonmoney maintenance compensation, and lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, any form of severance pay, any bonus for voluntary retirement, any other form of leave, or any similar lump sum payment.

(2) "Department" means the department of retirement systems.

(3) "Director" means the director of the department of retirement systems.

(4) "Dual member" means a person who (a) is or becomes a member of a system on or after July 1, 1988, (b) has been a member of one or more other systems, and (c) has never been retired for service from a retirement system and is not receiving a disability retirement or

disability leave benefit from any retirement system listed in RCW 41.50.030 or subsection (6) of this section.

(5) "Service" means the same as it may be defined in each respective system. For the purposes of RCW 41.54.030, military service granted under RCW 41.40.170(3) or 43.43.260 may only be based on service accrued under chapter 41.40 or 43.43 RCW, respectively.

(6) "System" means the retirement systems established under chapters 41.32, 41.40, 41.44, 41.35, 41.-- (sections 1 through 4 and 6 through 35 of this act), and 43.43 RCW; plan 2 of the system established under chapter 41.26 RCW; and the city employee retirement systems for Seattle, Tacoma, and Spokane. ((~~The inclusion of an individual first class city system is subject to the procedure set forth in RCW 41.54.061.~~))

Sec. 59. RCW 41.54.040 and 1998 c 341 s 704 are each amended to read as follows:

(1) The allowances calculated under RCW 41.54.030, 41.54.032, and 41.54.034 shall be paid separately by each respective current and prior system. Any deductions from such separate payments shall be according to the provisions of the respective systems.

(2) Postretirement adjustments, if any, shall be applied by the respective systems based on the payments made under subsection (1) of this section.

(3) The department shall adopt rules under chapter 34.05 RCW to ensure that where a dual member has service in a system established under chapter 41.32, 41.40, 41.44, 41.35, 41.-- (sections 1 through 4 and 6 through 35 of this act), or 43.43 RCW; service in plan 2 of the system established under chapter 41.26 RCW; and service under the city employee retirement system for Seattle, Tacoma, or Spokane, the additional cost incurred as a result of the dual member receiving a benefit under this chapter shall be borne by the retirement system incurring the additional cost.

Sec. 60. RCW 43.84.092 and 2003 c 361 s 602, 2003 c 324 s 1, 2003 c 150 s 2, and 2003 c 48 s 2 are each reenacted and amended to read as follows:

(1) All earnings of investments of surplus balances in the state

treasury shall be deposited to the treasury income account, which account is hereby established in the state treasury.

(2) The treasury income account shall be utilized to pay or receive funds associated with federal programs as required by the federal cash management improvement act of 1990. The treasury income account is subject in all respects to chapter 43.88 RCW, but no appropriation is required for refunds or allocations of interest earnings required by the cash management improvement act. Refunds of interest to the federal treasury required under the cash management improvement act fall under RCW 43.88.180 and shall not require appropriation. The office of financial management shall determine the amounts due to or from the federal government pursuant to the cash management improvement act. The office of financial management may direct transfers of funds between accounts as deemed necessary to implement the provisions of the cash management improvement act, and this subsection. Refunds or allocations shall occur prior to the distributions of earnings set forth in subsection (4) of this section.

(3) Except for the provisions of RCW 43.84.160, the treasury income account may be utilized for the payment of purchased banking services on behalf of treasury funds including, but not limited to, depository, safekeeping, and disbursement functions for the state treasury and affected state agencies. The treasury income account is subject in all respects to chapter 43.88 RCW, but no appropriation is required for payments to financial institutions. Payments shall occur prior to distribution of earnings set forth in subsection (4) of this section.

(4) Monthly, the state treasurer shall distribute the earnings credited to the treasury income account. The state treasurer shall credit the general fund with all the earnings credited to the treasury income account except:

(a) The following accounts and funds shall receive their proportionate share of earnings based upon each account's and fund's average daily balance for the period: The capitol building construction account, the Cedar River channel construction and operation account, the Central Washington University capital projects account, the charitable, educational, penal and reformatory institutions account, the common school construction fund, the county criminal justice assistance account, the county sales and use tax equalization account, the data processing building construction account, the deferred compensation administrative account, the deferred compensation principal account, the department of retirement systems expense account, the drinking water assistance account, the drinking water assistance administrative account, the drinking water assistance repayment account, the Eastern Washington University capital projects account, the education construction fund, the election account, the emergency reserve fund, The Evergreen State College capital projects account, the federal forest revolving account, the health services account, the public health services account, the health system capacity account, the personal health services account, the state higher education construction account, the higher education construction account, the highway infrastructure account, the industrial insurance premium refund account, the judges' retirement account, the judicial retirement administrative account, the judicial retirement principal account, the local leasehold excise tax account, the local real estate excise tax account, the local sales and use tax account, the medical aid account, the mobile home park relocation fund, the multimodal transportation account, the municipal criminal justice assistance account, the municipal sales and use tax equalization account, the natural resources deposit account, the oyster reserve land account, the perpetual surveillance and maintenance account, the public employees' retirement system plan 1 account, the public employees' retirement system combined plan 2 and plan 3 account, the public facilities construction loan revolving account beginning July 1, 2004, the public health supplemental account, the public works assistance account, the Puyallup tribal settlement account, the regional transportation investment district account, the resource management cost account, the site closure account, the special wildlife account, the state employees' insurance account, the state employees' insurance reserve account, the state investment board expense account, the state investment board commingled trust fund accounts, the supplemental pension account, the Tacoma Narrows toll bridge account, the teachers' retirement system plan 1 account, the teachers' retirement system combined plan 2 and plan 3 account, the tobacco prevention and control account, the tobacco settlement account, the transportation infrastructure account, the tuition recovery trust fund, the University of Washington bond retirement fund, the University of Washington building account, the volunteer fire fighters' and reserve officers' relief and pension principal fund, the volunteer fire fighters' and reserve officers' administrative fund, the Washington fruit express account, the Washington judicial retirement system account, the Washington law enforcement officers' and fire fighters' system plan 1 retirement account, the Washington law enforcement officers' and fire fighters' system plan 2 retirement account, the Washington public safety employees' plan 2 retirement account, the Washington school employees' retirement system combined plan 2 and 3 account, the Washington state health insurance pool account, the Washington state patrol retirement account, the Washington State University building account, the Washington State University bond retirement fund, the water pollution control revolving fund, and the Western Washington University capital projects account. Earnings derived from investing balances of the agricultural permanent fund, the normal school permanent fund, the permanent common school fund, the scientific permanent fund, and the state university permanent fund shall be allocated to their respective beneficiary accounts. All earnings to be distributed under this subsection (4)(a) shall first be reduced by the allocation to the state treasurer's service fund pursuant to RCW 43.08.190.

(b) The following accounts and funds shall receive eighty percent of their proportionate share of earnings based upon each account's or fund's average daily balance for the period: The aeronautics account, the aircraft search and rescue account, the county arterial preservation account, the department of licensing services account, the essential rail assistance account, the ferry bond retirement fund, the grade crossing protective fund, the high capacity transportation account, the highway bond retirement fund, the highway safety account, the motor vehicle fund, the motorcycle safety education account, the pilotage account, the public transportation systems account, the Puget Sound capital construction account, the Puget Sound ferry operations account, the recreational vehicle account, the rural arterial trust account, the safety and education account, the special category C account, the state patrol highway account, the transportation 2003 account (nickel account), the transportation equipment fund, the transportation fund, the transportation improvement account, the transportation improvement board bond retirement account, and the urban arterial trust account.

(5) In conformance with Article II, section 37 of the state Constitution, no treasury accounts or funds shall be allocated earnings without the specific affirmative directive of this section.

Sec. 61. RCW 41.32.802 and 2001 2nd sp.s. c 10 s 8 are each amended to read as follows:

(1)(a) If a retiree enters employment with an employer sooner than one calendar month after his or her accrual date, the retiree's monthly retirement allowance will be reduced by five and one-half percent for every seven hours worked during that month. This reduction will be applied each month until the retiree remains absent from employment with an employer for one full calendar month.

(b) The benefit reduction provided in (a) of this subsection will accrue for a maximum of one hundred forty hours per month. Any benefit reduction over one hundred percent will be applied to the benefit the retiree is eligible to receive in subsequent months.

(2) A retiree who has satisfied the break in employment requirement of subsection (1) of this section, may work up to eight hundred sixty-seven hours per calendar year in an eligible position, as defined in RCW 41.32.010, 41.35.010, <u>section 2 of this act,</u> or 41.40.010, or as a fire fighter or law enforcement officer, as defined in RCW 41.26.030, without suspension of his or her benefit.

(3) If the retiree opts to reestablish membership under RCW 41.32.044, he or she terminates his or her retirement status and immediately becomes a member. Retirement benefits shall not accrue during the period of membership and the individual shall make contributions and receive membership credit. Such a member shall have the right to again retire if eligible.

Sec. 62. RCW 41.32.862 and 2001 2nd sp.s. c 10 s 10 are each amended to read as follows:

(1)(a) If a retiree enters employment with an employer sooner than one calendar month after his or her accrual date, the retiree's monthly retirement allowance will be reduced by five and one-half percent for every seven hours worked during that month. This reduction will be applied each month until the retiree remains absent from employment with an employer for one full calendar month.

(b) The benefit reduction provided in (a) of this subsection will accrue for a maximum of one hundred forty hours per month. Any benefit reduction over one hundred percent will be applied to the benefit the retiree is eligible to receive in subsequent months.

(2) A retiree who has satisfied the break in employment requirement of subsection (1) of this section, may work up to eight hundred sixty-seven hours per calendar year in an eligible position, as defined in RCW 41.32.010, 41.35.010, section 2 of this act, or 41.40.010, or as a fire fighter or law enforcement officer, as defined in RCW 41.26.030, without suspension of his or her benefit.

(3) If the retiree opts to reestablish membership under RCW 41.32.044, he or she terminates his or her retirement status and immediately becomes a member. Retirement benefits shall not accrue during the period of membership and the individual shall make contributions and receive membership credit. Such a member shall have the right to again retire if eligible.

Sec. 63. RCW 41.40.037 and 2003 c 412 s 5 and 2003 c 295 s 7 are each reenacted and amended to read as follows:

(1)(a) If a retiree enters employment with an employer sooner than one calendar month after his or her accrual date, the retiree's monthly retirement allowance will be reduced by five and one-half percent for every eight hours worked during that month. This reduction will be applied each month until the retiree remains absent from employment with an employer for one full calendar month.

(b) The benefit reduction provided in (a) of this subsection will accrue for a maximum of one hundred sixty hours per month. Any benefit reduction over one hundred percent will be applied to the benefit the retiree is eligible to receive in subsequent months.

(2)(a) Except as provided in (b) of this subsection, a retiree from plan 1 who enters employment with an employer at least one calendar month after his or her accrual date may continue to receive pension payments while engaged in such service for up to eight hundred sixty-seven hours of service in a calendar year without a reduction of pension.

(b) A retiree from plan 1 who enters employment with an employer at least three calendar months after his or her accrual date and:

(i) Is hired into a position for which the employer has documented a justifiable need to hire a retiree into the position;

(ii) Is hired through the established process for the position with the approval of: A school board for a school district; the chief executive officer of a state agency employer; the secretary of the senate for the senate; the chief clerk of the house of representatives for the house of representatives; the secretary of the senate and the chief clerk of the house of representatives jointly for the joint legislative audit and review committee, the legislative transportation committee, the joint committee on pension policy, the legislative evaluation and accountability program, the legislative systems committee, and the statute law committee; or according to rules adopted for the rehiring of retired plan 1 members for a local government employer;

(iii) The employer retains records of the procedures followed and decisions made in hiring the retiree, and provides those records in the event of an audit; and

(iv) The employee has not already rendered a cumulative total of more than one thousand nine hundred hours of service while in receipt of pension payments beyond an annual threshold of eight hundred sixty-seven hours;

shall cease to receive pension payments while engaged in that service after the retiree has rendered service for more than one thousand five hundred hours in a calendar year. The one thousand nine hundred hour cumulative total under this subsection applies prospectively to those retiring after July 27, 2003, and retroactively to those who retired prior to July 27, 2003, and shall be calculated from the date of retirement.

(c) When a plan 1 member renders service beyond eight hundred sixty-seven hours, the department shall collect from the employer the applicable employer retirement contributions for the entire duration of the member's employment during that calendar year.

(d) A retiree from plan 2 or plan 3 who has satisfied the break in employment requirement of subsection (1) of this section may work up to eight hundred sixty-seven hours in a calendar year in an eligible position, as defined in RCW 41.32.010, 41.35.010, <u>section 2 of this act,</u> or 41.40.010, or as a fire fighter or law enforcement officer, as defined in RCW 41.26.030, without suspension of his or her benefit.

(3) If the retiree opts to reestablish membership under RCW 41.40.023(12), he or she terminates his or her retirement status and becomes a member. Retirement benefits shall not accrue during the period of membership and the individual shall make contributions and receive membership credit. Such a member shall have the right to again retire if eligible in accordance with RCW 41.40.180. However, if the right to retire is exercised to become effective before the member has rendered two uninterrupted years of service, the retirement formula and survivor options the member had at the time of the member's previous retirement shall be reinstated.

(4) The department shall collect and provide the state actuary with information relevant to the use of this section for the select committee on pension policy.

(5) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to be employed for more than five months in a calendar year without a reduction of his or her pension.

Sec. 64. RCW 41.35.060 and 2001 2nd sp.s. c 10 s 11 are each amended to read as follows:

(1)(a) If a retiree enters employment with an employer sooner than one calendar month after his or her accrual date, the retiree's monthly retirement allowance will be reduced by five and one-half percent for every eight hours worked during that month. This reduction will be applied each month until the retiree remains absent from employment with an employer for one full calendar month.

(b) The benefit reduction provided in (a) of this subsection will accrue for a maximum of one hundred sixty hours per month. Any benefit reduction over one hundred percent will be applied to the benefit the retiree is eligible to receive in subsequent months.

(2) A retiree who has satisfied the break in employment requirement of subsection (1) of this section may work up to eight hundred sixty-seven hours per calendar year in an eligible position, as defined in RCW 41.32.010, 41.35.010, <u>section 2 of this act,</u> or 41.40.010, or as a fire fighter or law enforcement officer, as defined in RCW 41.26.030, without suspension of his or her benefit.

(3) If the retiree opts to reestablish membership under RCW 41.35.030, he or she terminates his or her retirement status and

becomes a member. Retirement benefits shall not accrue during the period of membership and the individual shall make contributions and receive membership credit. Such a member shall have the right to again retire if eligible in accordance with RCW 41.35.420 or 41.35.680. However, if the right to retire is exercised to become effective before the member has rendered two uninterrupted years of service, the retirement formula and survivor options the member had at the time of the member's previous retirement shall be reinstated.

NEW SECTION. **Sec. 65.** This act takes effect July 1, 2006.

NEW SECTION. **Sec. 66.** The benefits provided pursuant to this act are not provided to employees as a matter of contractual right prior to July 1, 2006. The legislature retains the right to alter or abolish these benefits at any time prior to July 1, 2006.

NEW SECTION. **Sec. 67.** Sections 1 through 4 and 6 through 35 of this act constitute a new chapter in Title 41 RCW.

--- END ---

FISCAL NOTE – DRAFT

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**1/7/04**	**Z-1039.1**

SUMMARY OF BILL:

This bill impacts the Public Employees' Retirement System (PERS) and School Employees' Retirement System (SERS) Plans 2 and 3 by allowing members, at the time of retirement, to buy down the early retirement reduction amounts applied to their normal retirement allowance.

A member buying down the early retirement reduction amounts under this bill would pay the full actuarial cost of the buy-down amount with a lump sum payment, eligible rollover, direct rollover, and/or trustee-to-trustee transfer from an eligible retirement plan (at the time of retirement).

Effective Date: 7/1/2006

CURRENT SITUATION:

This option is not currently available through the Department of Retirement Systems. Current members, however, could purchase an equivalent annuity through a private sector annuity provider. The cost of an annuity will vary from provider to provider and will vary based on the particular annuity product offered.

MEMBERS IMPACTED:

Any future retiree from PERS plans 2 and 3 could potentially be impacted by this bill. As of our latest actuarial valuation, there were 132,448 members in PERS plan 2 and plan 3 (combined).

FISCAL IMPACT:

None.

We have assumed that this benefit proposal will not change future retirement behavior in the affected retirement system since existing members currently have access to private-sector annuity providers that currently provide similar annuity products. We have also assumed that the full actuarial cost will include the cost of any adverse selection that may develop due to mortality experience and/or interest rate timing by the member.

AN ACT Relating to permitting members of the public employees' retirement system plan 2 and plan 3 and the school employees' retirement system plan 2 and plan 3 to buy down the early retirement reduction amounts; amending RCW 41.40.630, 41.40.820, 41.35.420, and 41.35.680; adding new sections to chapter 41.40 RCW; adding new sections to chapter 41.35 RCW; and providing an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.40 RCW under the subchapter heading "plan 2" to read as follows:

(1) A member eligible to retire under RCW 41.40.630 (2) or (3) may, at the time of filing a written application for retirement with the department, apply to the department to buy down the early retirement reduction amounts with the department.

(2) A member may buy down all or part of the amount required to fully offset the reduction in benefits that the member is subject to in computing the member's retirement allowance under RCW 41.40.630 (2) or (3), as applicable.

(3) Subject to rules adopted by the department, a member buying down the early retirement reduction amounts under this section may pay

all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that the lump sum payments, rollovers, and transfers comply with the requirements of the federal internal revenue code and the regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for the tax-free rollover treatment or other treatment under federal tax law.

Sec. 2. RCW 41.40.630 and 2000 c 247 s 901 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member with at least five service credit years who has attained at least age sixty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.620.

(2) EARLY RETIREMENT. Any member who has completed at least twenty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.620, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.620, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

<u>(4) The actuarial reduction provided for in subsection (2) of this section and the three percent per year reduction provided for in subsection (3) of this section shall be adjusted for any buydown of those amounts under section 1 of this act.</u>

NEW SECTION. **Sec. 3.** A new section is added to chapter 41.40 RCW under the subchapter heading "plan 3" to read as follows:

(1) A member eligible to retire under RCW 41.40.820 (2) or (3) may, at the time of filing a written application for retirement with the department, apply to the department to buy down the early retirement reduction amounts with the department.

(2) A member may buy down all or part of the amount required to fully offset the reduction in benefits that the member is subject to in computing the member's retirement allowance under RCW 41.40.820 (2) or (3), as applicable

(3) Subject to rules adopted by the department, a member buying-down the early retirement reduction amounts under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that the lump sum payments, rollovers, and transfers comply with the requirements of the federal internal revenue code and the regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for the tax-free rollover treatment or other treatment under federal tax law.

Sec. 4. RCW 41.40.820 and 2000 c 247 s 309 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has:

(a) Completed ten service credit years; or

(b) Completed five service credit years, including twelve service credit months after attaining age fifty-four; or

(c) Completed five service credit years by the transfer payment date specified in RCW 41.40.795, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.40.795;

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790.

(2) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be

eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

<u>(4) The actuarial reduction provided for in subsection (2) of this section and the three percent per year reduction provided for in subsection (3) of this section shall be adjusted for any buydown of those amounts under section 3 of this act.</u>

<u>NEW SECTION.</u> **Sec. 5.** A new section is added to chapter 41.35 RCW under the subchapter heading "plan 2" to read as follows:

(1) A member eligible to retire under RCW 41.35.420 (2) or (3) may, at the time of filing a written application for retirement with the department, apply to the department to buy down the early retirement reduction amounts with the department.

(2) A member may buy down all or part of the amount required to fully offset the reduction in benefits that the member is subject to in computing the member's retirement allowance under RCW 41.35.420 (2) or (3), as applicable.

(3) Subject to rules adopted by the department, a member buying down the early retirement reduction amounts under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that the lump sum payments, rollovers, and transfers comply with the requirements of the federal internal revenue code and the regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from

another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for the tax-free rollover treatment or other treatment under federal tax law.

Sec. 6. RCW 41.35.420 and 2000 c 247 s 905 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member with at least five service credit years who has attained at least age sixty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400.

(2) EARLY RETIREMENT. Any member who has completed at least twenty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

<u>(4) The actuarial reduction provided for in subsection (2) of this section and the three percent per year reduction provided for in subsection (3) of this section shall be adjusted for any buydown of those amounts under section 5 of this act.</u>

<u>NEW SECTION.</u> **Sec. 7.** A new section is added to chapter 41.35 RCW under the subchapter heading "plan 3" to read as follows:

(1) A member eligible to retire under RCW 41.35.680 (2) or (3) may, at the time of filing a written application for retirement with the department, apply to the department to buy down the early retirement reduction amounts with the department.

(2) A member may buy down all or part of the amount required to fully offset the reduction in benefits that the member is subject to in computing the member's retirement allowance under RCW 41.35.680 (2) or (3), as applicable.

(3) Subject to rules adopted by the department, a member buying down the early retirement reduction amounts under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that the lump sum payments, rollovers, and transfers comply with the requirements of the federal internal revenue code and the regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for the tax-free rollover treatment or other treatment under federal tax law.

Sec. 8. RCW 41.35.680 and 2000 c 247 s 906 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has:

(a) Completed ten service credit years; or

(b) Completed five service credit years, including twelve service credit months after attaining age fifty-four; or

(c) Completed five service credit years by September 1, 2000, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.35.510;

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620.

(2) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

<u>(4) The actuarial reduction provided for in subsection (2) of this section and the three percent per year reduction provided for in subsection (3) of this section shall be adjusted for any buydown of those amounts under section 7 of this act.</u>

<u>NEW SECTION.</u> **Sec. 9.** This act takes effect July 1, 2006.

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FISCAL NOTE – DRAFT

RESPONDING AGENCY:	CODE:	DATE:	REQUEST NO. BILL NUMBER:
Office of the State Actuary	**035**	**1/7/04**	**Z-1040.1**

SUMMARY OF BILL:

This bill impacts the Public Employees' Retirement System (PERS) and School Employees' Retirement System (SERS) Plans 2 and 3 by allowing eligible members, at the time of retirement, to purchase up to five years of additional service credit.

Eligible members would include only members who are eligible for early retirement under the provisions of the system. Additional service credit purchased under this bill does not constitute membership service and, therefore, could not be used to qualify for retirement.

A member purchasing additional service credit under this bill would pay the full actuarial cost of the service credit with a lump sum payment, eligible rollover, direct rollover, and/or trustee-to-trustee transfer from an eligible retirement plan (at the time of retirement).

Effective Date: 7/1/2006

CURRENT SITUATION:

This option is not currently available through the Department of Retirement Systems. Current members, however, could purchase an equivalent annuity through a private sector annuity provider. The cost of an annuity will vary from provider to provider and will vary based on the particular annuity product offered.

MEMBERS IMPACTED:

Any future retiree from PERS plans 2 and 3 could potentially be impacted by this bill. As of our latest actuarial valuation, there were 132,448 members in PERS plan 2 and plan 3 (combined).

FISCAL IMPACT:

None.

We have assumed that this benefit proposal will not change future retirement behavior in the affected retirement system since existing members currently have access to private-sector annuity providers that currently provide similar annuity products. We have also assumed that the full actuarial cost will include the cost of any adverse selection that may develop due to mortality experience and/or interest rate timing by the member.

AN ACT Relating to permitting members of the public employees' retirement system plan 2 and plan 3 and the school employees' retirement system plan 2 and plan 3 who qualify for early retirement or alternate early retirement to make a one-time purchase of additional service credit; adding new sections to chapter 41.40 RCW; adding new sections to chapter 41.35 RCW; and providing an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.40 RCW under the subchapter heading "plan 2" to read as follows:

(1) A member eligible to retire under RCW 41.40.630 (2) or (3) may, at the time of filing a written application for retirement with the department, apply to the department to make a one-time purchase of up to five years of additional service credit.

(2) To purchase additional service credit under this section, a member shall pay the actuarial equivalent value of the resulting increase in the member's benefit.

(3) Subject to rules adopted by the department, a member purchasing additional service credit under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or

trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(4) Additional service credit purchased under this section is not membership service, and may not be used to qualify a member for retirement under RCW 41.40.630.

NEW SECTION. **Sec. 2.** A new section is added to chapter 41.40 RCW under the subchapter heading "plan 3" to read as follows:

(1) A member eligible to retire under RCW 41.40.820 (2) or (3) may, at the time of filing a written application for retirement with the department, apply to the department to make a one-time purchase of up to five years of additional service credit.

(2) To purchase additional service credit under this section, a member shall pay the actuarial equivalent value of the resulting increase in the member's benefit.

(3) Subject to rules adopted by the department, a member purchasing additional service credit under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(4) Additional service credit purchased under this section is not membership service, and may not be used to qualify for retirement under RCW 41.40.820.

NEW SECTION. **Sec. 3.** A new section is added to chapter 41.35 RCW under the subchapter heading "plan 2" to read as follows:

(1) A member eligible to retire under RCW 41.35.420 (2) or (3) may, at the time of filing a written application for retirement with the department, apply to the department to make a one-time purchase of up to five years of additional service credit.

(2) To purchase additional service credit under this section, a member shall pay the actuarial equivalent value of the resulting increase in the member's benefit.

(3) Subject to rules adopted by the department, a member purchasing additional service credit under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(4) Additional service credit purchased under this section is not membership service, and may not be used to qualify a member for retirement under RCW 41.35.420.

NEW SECTION. **Sec. 4.** A new section is added to chapter 41.35 RCW under the subchapter heading "plan 3" to read as follows:

(1) A member eligible to retire under RCW 41.35.680 (2) or (3) may, at the time of filing a written application for retirement with the department, apply to the department to make a one-time purchase of up to five years of additional service credit.

(2) To purchase additional service credit under this section, a member shall pay the actuarial equivalent value of the resulting increase in the member's benefit.

(3) Subject to rules adopted by the department, a member purchasing additional service credit under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The

department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(4) Additional service credit purchased under this section is not membership service, and may not be used to qualify for retirement under RCW 41.35.680.

NEW SECTION. **Sec. 5.** This act takes effect July 1, 2006.

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Background

New Plan 3 members of TRS, SERS, and PERS are vested in the defined benefit portion of their Plan after ten years of service or after five years of service if 12 months of that service is earned after attaining age 54. Plan 3 members are immediately vested in the defined contribution side of their Plan. Those who transferred from Plan 2 to Plan 3 were automatically vested if they had five years of service in Plan 2 as of July 1, 1996, September 1, 2000 and June 1, 2003, the initial transfer dates for TRS, SERS and PERS respectively.

Committee Activity

Presentation:
October 21, 2003 – Full Committee
November 18, 2003 – Full Committee Meeting

Proposal Approved:
November 18, 2003 – Full Committee Meeting

Recommendation to Legislature

Reduce the required length of service for defined benefit vesting in PERS, SERS and TRS plans 3 from 10 years to 5 years for all members.

Staff Contact

Laura Harper – 360-586-7616 – harper_la@leg.wa.gov

Plan 3 Vesting

(November 10, 2003)

Issue

Reducing the required length of service for vesting in PERS 3, SERS 3, and TRS 3 from 10 years to five years.

Staff

Laura Harper (360) 586-9237

Members Impacted

As of the most recent valuation, nearly 48,600 plan 3 members had less than 10 years of service or were not vested in plan 2 on July 1, 1996 in TRS, September 1, 2000 in SERS or June 1, 2003 in PERS, or did not have 5 years of service including 12 months after age 54. Any of these non-vested members wouldn't be affected by this bill if they would quit with between 5 to 10 years of service and before they earned 12 months of service after age 54.

Current Situation

New Plan 3 members of TRS, SERS, and PERS are vested in the defined benefit portion of their Plan after ten years of service, or after five years of service if 12 months of that service is earned after attaining age 54. Plan 3 members are immediately vested in the defined contribution side of their Plan. Those who transferred from Plan 2 to Plan 3 were automatically vested if they had five years of service in Plan 2 as of July 1, 1996, September 1, 2000 and June 1, 2003, the initial transfer dates for TRS, SERS and PERS respectively.

History

SHB 1298 was introduced in the 2003 legislative session. The bill would have shortened the vesting period in the Plans 3 from 10 years to 5 years. The bill passed the House. The bill was not heard in the Senate.

Policy Analysis

While the 10 year vesting period for the Plans 3 is the longest among the open plans administered by Washington State, compared to other plans in other states it is not unusual. Numerous state and municipal retirement plans use a 10 year vesting period. In the latest survey from the Public Pension Coordinating Council, covering 276 public retirement plans, a total of 96 plans had vesting requirements of 10 years or more. Over 40 of those plans were administered by twenty-five states or territories, in addition to Washington. In comparison, 132 plans had vesting requirements of 5 years or less.

Why 10?

When the Plans 3 were on the drawing board, one of the concerns was the small defined benefit a member would receive if they earned only a modest amount of service credit before full retirment. It was felt that the 10% of average final compensation (AFC) a plan 2 member would be eligible to receive upon vesting (5 years × 2% per year) would set the standard for a minimum defined benefit. Thus, setting the vesting period in the plans 3 to 10 years guaranteed vested members 10% of their AFC as a minimum defined benefit (10 years x 1% per year).

Other States

While the 10 year vesting period for the Plans 3 is the longest among the open plans administered by Washington State, numerous state and municipal retirement plans use a 10 year vesting period. In the latest survey from the Public Pension Coordinating Council, covering 276 public retirement plans, 96 plans had vesting requirements of 10 years or more. In comparison, 132 plans had vesting requirements of 5 years or less. See attachment.

Bill Draft

See attachment

Fiscal Note (Draft)

See attachment

Active Members and Vesting Requirements by Plan

Source: Public Pension Coordinating Council Survey 2002 (2000-2001 data)

ID#	PLAN NAME	Members	Vesting Requirement
0376G	West Virginia Teacher's Defined Contribution Plan	19,000	1/3 after 6 years; 2/3 after 9 years; 100% after 12 years
0020A	PARK EMPLOYEES & RET. BOARD EMPLOYEES ANNUITY AND BENEFIT FUND OF CHICAGO	3,639	10 YEARS
0247A	OAKLAND POLICE & FIRE RETIREMENT FUND	161	10 YEARS
0283A	City Pension Fund for Firefighters and Police Officers in the City of Pembroke Pines	364	10 years
0314C	BISMARCK FIREFIGHTERS RELIEF ASSOCIATION	62	10 YEARS
0376D	West Virginia State Police Retirement Plan□□(Trooper Plan B)	323	10 years
0497B	Macon Water Authority Employee Pension Plan	205	10 years
0672A	New York City Pension Fund -- Subchapter 2	11,477	10 years
0022A	Dukes County Contributory Retirement Plan	932	10 years at age 55
0083A	OKLAHOMA TEACHERS' RETIREMENT SYSTEM	83,024	10 YEARS OF OKLAHOMA SERVICE
0005C	RETIREMENT SYSTEMS OF ALABAMA TEACHERS' PLAN	126,558	10 YEARS OF SERVICE
0010A	TEACHERS' RETIREMENT SYSTEM OF LA - REGULAR EMPLOYEES	87,631	10 YEARS OF SERVICE
0010B	TEACHERS' RET. SYSTEM OF LA - SCHOOL FOOD SERVICE PLAN B	2,115	10 YEARS OF SERVICE
0010C	TEACHERS' RET. SYSTEM OF LA - SCHOOL FOOD SERVICE PLAN A	1,067	10 YEARS OF SERVICE
0038A	RETIREMENT SYSTEM FOR SWORN POLICE PERSONNEL	107	10 YEARS OF SERVICE
0015A	CONNECTICUT TEACHERS' RETIREMENT SYSTEM	46,500	10 YEARS OF SERVICE
0016A	PLYMOUTH COUNTY RETIREMENT ASSOCIATION	9,098	10 YEARS OF SERVICE
0017A	MIAMI FIRE FIGHTERS' AND POLICE OFFICERS' RETIREMENT TRUST	1,587	10 YEARS OF SERVICE
0024A	STERLING HEIGHTS POLICE AND FIRE RETIREMENT PLAN	261	10 YEARS OF SERVICE
0064B	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - PUBLIC SCHOOL	32,864	10 YEARS OF SERVICE
0064C	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - JUDICIAL	416	10 YEARS OF SERVICE
0004A	TEXAS MUNICIPAL RETIREMENT SYSTEM	86,203	10 YEARS OF SERVICE
0005A	RETIREMENT SYSTEMS OF ALABAMA EMPLOYEES	75,734	10 YEARS OF SERVICE
0064A	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - GENERAL	72,176	10 YEARS OF SERVICE
0067A	TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY	134,199	10 YEARS OF SERVICE
0068A	POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY	42,430	10 YEARS OF SERVICE
0069A	PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF NEW JERSEY	277,441	10 YEARS OF SERVICE
0146E	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN E: GENERAL	31,088	10 YEARS OF SERVICE
0071A	LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM	69,680	10 YEARS OF SERVICE
0087A	NEW HAMPSHIRE RETIREMENT SYSTEM - GENERAL PLAN/EMPLOYEES	20,262	10 YEARS OF SERVICE
0087C	NEW HAMPSHIRE RETIREMENT SYSTEM - POLICE PLAN	3,254	10 YEARS OF SERVICE
0087D	NEW HAMPSHIRE RETIREMENT SYSTEM - FIREFIGHTERS PLAN	1,269	10 YEARS OF SERVICE
0120A	CITY OF BOCA RATON GENERAL EMPLOYEES' TRUST	628	10 YEARS OF SERVICE
0131A	MWRD RETIREMENT FUND	2,084	10 years of service
0148A	TEACHERS RETIREMENT SYSTEM OF GEORGIA	191,908	10 YEARS OF SERVICE
0154B	NORTH DAKOTA HIGHWAY PATROL RETIREMENT PLAN	122	10 YEARS OF SERVICE
0156B	WICHITA POLICE AND FIRE RETIREMENT SYSTEM	993	10 YEARS OF SERVICE
0161A	INDIANA STATE TEACHERS' RETIREMENT PLAN	77,870	10 YEARS OF SERVICE
0163A	CHICOPEE RETIREMENT SYSTEM	1,140	10 YEARS OF SERVICE
0168A	FLORIDA RETIREMENT SYSTEM	597,823	10 YEARS OF SERVICE
0181A	MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM	312,699	10 YEARS OF SERVICE
0182A	MICHIGAN STATE POLICE RETIREMENT SYSTEM	2,210	10 YEARS OF SERVICE
0185A	MICHIGAN STATE EMPLOYEES' RETIREMENT SYSTEM	47,778	10 YEARS OF SERVICE
0193A	KANSAS PUBLIC EMPLOYEES RETIREMENT PLAN	142,870	10 YEARS OF SERVICE
0223A	CITY OF ALPENA - GENERAL	48	10 YEARS OF SERVICE
0224A	LA COUNTY METRO TRANSIT AUTHORITY - UTU RIP	3,944	10 YEARS OF SERVICE
0224B	LA COUNTY METRO TRANSIT AUTHORITY - MAINTENANCE EMPLOYEES	2,023	10 YEARS OF SERVICE
0224C	LA COUNTY METRO TRANSIT AUTHORITY - TCU RIP	697	10 YEARS OF SERVICE
0226A	CITY OF MANISTEE EMPLOYEES RETIREMENT SYSTEM	62	10 YEARS OF SERVICE
0255A	OKLAHOMA POLICE PENSION AND RETIREMENT PLAN	3,778	10 YEARS OF SERVICE

0269A	KANSAS CITY (MO) FIREFIGHTERS' PENSION SYSTEM	761	10 YEARS OF SERVICE
0293A	CITY OF MILFORD - BENEFIT PLAN I	700	10 YEARS OF SERVICE
0314A	CITY OF BISMARK CITY PENSION PLAN	307	10 YEARS OF SERVICE
0314B	CITY OF BISMARK POLICE PENSION PLAN	143	10 YEARS OF SERVICE
0335A	LYNN HAVEN POLICE PENSION PLAN	27	10 YEARS OF SERVICE
0337A	LYNN HAVEN GENERAL EMPLOYEE PENSION PLAN	74	10 YEARS OF SERVICE
0340A	A.S.G GENERAL EMPLOYEES PLAN	4,050	10 YEARS OF SERVICE
0372A	EMPLOYEES RETIREMENT SYSTEM OF RHODE ISLAND	26,738	10 YEARS OF SERVICE
0372B	MUNICIPAL EMPLOYEES RETIREMENT SYSTEM	6,983	10 YEARS OF SERVICE
0372C	STATE POLICE RETIREMENT BENEFITS TRUST	130	10 YEARS OF SERVICE
0381A	CITY OF ALAMEDA POLICE AND FIRE RETIREMENT PLAN 1079 (CLOSED TO NEW MEMBERS)	0	10 YEARS OF SERVICE
0381B	CITY OF ALAMEDA POLICE & FIRE PLAN 1082 (CLOSED TO NEW MEMBERS)	0	10 YEARS OF SERVICE
0388A	TOWN OF AVON POLICE RETIREMENT PLAN	25	10 YEARS OF SERVICE
0406A	ROSEVILLE CITY EMPLOYEE'S RETIREMENT PLAN	308	10 YEARS OF SERVICE
0413A	CITY OF CADILLAC POLICEMEN AND FIREMENT RETIREMENT SYSTEM	29	10 YEARS OF SERVICE
0414A	CITY OF BIRMINGHAM (MI) EMPLOYEES RETIREMENT SYSTEM	197	10 YEARS OF SERVICE
0423A	STATE POLICE RETIREMENT SYSTEM OF NEW JERSEY	2,623	10 YEARS OF SERVICE
0425A	PRISON OFFICERS' PENSION FUND OF NEW JERSEY	0	10 YEARS OF SERVICE
0437A	CITY OF WHEELING EMPLOYEES' RETIREMENT AND BENEFIT FUND	240	10 YEARS OF SERVICE
0465A	LONG BEACH TRANSIT PENSION PLAN - SALARIED EMPLOYEES	117	10 YEARS OF SERVICE
0786A	VIRGIN ISLANDS GOVERNMENT EMPLOYEES' RETIREMENT PLAN	16,861	10 YEARS OF SERVICE
0072A	ARKANSAS TEACHERS' RETIREMENT SYSTEM	58,528	10 YEARS OF SERVICE (7/1/98 -5 YEARS)
0278A	CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM *	715,105	10 YEARS OF SERVICE FOR TIER 2/5 YEARS SERVICE FOR TIER 1
0121A	PENNSYLVANIA STATE EMPLOYES' RETIREMENT SYSTEM	112,044	10 YEARS OF SERVICE OR 3 YEARS AT AGE 60
0235B	NEBRASKA PERS STATE PATROL RETIREMENT PLAN	386	10 YEARS OF SERVICE, SCHEDULE OF 20% PER YEAR FROM 6-10 YRS
0057C	WYOMING PAID FIREMEN'S PLAN	282	10 YEARS OF SERVICEFOR PLAN A; 4YRS FOR PLAN B
0195H	MONTANA VOLUNTEER FIREFIGHTERS COMPENSATION ACT	2,537	10 YRS
0677A	Springfield Police & Fire Retirement System	500	10 YRS
0569A	City of Kingsford Police and Firemen Retirement System	20	10 yrs service
0174I	Washington Teachers' Retirement System -- Plan 3	35,284	age 65 with at least 10 years of service
0619A	Holyoke Contributory Retirement System	1,407	10 yrs srv/age 55 20 yrs srv/any age
0124A	CITY OF MIAMI BEACH FIRE & POLICE SUPPLEMENTAL PLAN CITY PENSION FUND.	486	100% AFTER 10 YEARS
0497A	Macon Water Authority Employee Pension Plan	200	vested with 10 yrs. service
0060B	STATE COLLEGE BOROUGH - POLICE PLAN	60	12 YEARS
0193B	KANSAS POLICE AND FIRE RETIREMENT SYSTEM	6,560	15 YEARS
0407D	FLINT EMPLOYEES RETIREMENT SYSTEM - MEDICAL CENTER	2,220	15 YEARS (10 AT AGE 55)
0174H	WASHINGTON JUDICIAL RETIREMENT SYSTEM	38	15 YEARS OF SERVICE
0418A	POLICE RETIREMENT SYSTEM OF KANSAS CITY, MISSOURI	1,263	15 YEARS OF SERVICE
0376A	West Virginia Judges Retirement System (JRS)	52	16 years service
0183B	State of Michigan Defined Contribution Retirement Plan	234	2 years = 50% , 3 years = 75%, 4 yrs = 100%
0185B	State of Michigan Defined Contribution Retirement Plan	12,635	2 YOS = 50%, 3 YOS = 75%, 4 YOS = 100%
0009A	THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO	13,858	20 YEARS
0019A	OHIO STATE HIGHWAY PATROL RETIREMENT PLAN	1,545	20 YEARS
0759A	HOUSTON FIREFIGHTERS' RELIEF AND RETIREMENT FUND	3,276	20 YEARS
0372D	JUDICIAL RETIREMENT BENEFITS TRUST	29	20 YEARS AGE 65, OR 15 YEARS AGE 75
0025A	CLAIR T. SINGERMAN EMPLOYEE RETIREMENT SYSTEM	374	20 YEARS AND AGE 55
0092A	FIRE AND POLICE PENSION FUND, SAN ANTONIO	3,500	20 YEARS OF SERVICE
0190A	TEXAS COUNTY AND DISTRICT RETIREMENT PLAN	90,633	8, 10, OR 12 YEARS, AT PARTICIPATING EMPLOYER'S ELECTION
0386A	COLORADO COUNTY OFFICIALS & EMPLOYEES RET. ASSOC. PLANS	15,000	IMMEDIATE; 5 YR; 10 YR-AS ADOPTED BY COUNTIES, MUNICI., & SPEC. DISTRICTS
0043A	MN STATE RETIREMENT SYSTEM GENERAL EMPLOYEES' PLAN	47,920	3 YEARS
0043B	MN STATE RETIREMENT SYSTEM STATE TROOPERS' RETIREMENT PLAN	830	3 YEARS
0043C	MN STATE RETIREMENT SYSTEM CORRECTIONAL EMPLOYEES' PLAN	2,882	3 YEARS
0133A	MN PUBLIC EMPLOYEES' RETIREMENT ASSOC. - COORDINATED PLAN	135,560	3 YEARS
0133B	MN PUBLIC EMPLOYEES' RETIREMENT ASSOC. - POLICE & FIRE PLAN	9,627	3 YEARS
0462B	Employees' Retirement System of Montgomery County (DC Plan)Retirement Savings Plan	2,544	3 YEARS
0405A	MINNESOTA TEACHERS RETIREMENT ASSOCIATION	70,508	3 YEARS OF ALLOWABLE SERVICE

0023A	BURLINGTON EMPLOYEES' RET. SYSTEM FOR POLICE AND FIRE	165	3 YEARS OF SERVICE
0023B	BURLINGTON EMPLOYEES' RET. SYSTEM FOR GENERAL EMPLOYEES	534	3 YEARS OF SERVICE
0055A	NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT	10,025	3 YEARS OF SERVICE
0178A	SOUTH DAKOTA RETIREMENT SYSTEM	34,180	3 YEARS OF SERVICE
0006A	PERS OF MISSISSIPPI GENERAL PLAN	151,790	4 YEARS
0057D	WYOMING PUBLIC EMPLOYEES' SYSTEM	31,492	4 YEARS
0165E	UTAH FIREFIGHTER'S RETIREMENT SYSTEM	1,452	4 YEARS
0165A	UTAH PUBLIC EMPLOYEES' CONTRIBUTORY RETIREMENT SYSTEM	3,972	4 YEARS OF SERVICE
0165B	UTAH PUBLIC EMPLOYEES' NON-CONTRIBUTORY RETIREMENT SYSTEM	81,894	4 YEARS OF SERVICE
0165C	UTAH PUBLIC SAFETY PLAN	6,839	4 YEARS OF SERVICE
0165F	UTAH GOVERNORS AND LEGISLATIVE PENSION PLAN	88	4 YEARS OF SERVICE
0452A	Municipal Fire & Police Retirement System of Iowa	3,843	4 years of service
0278B	CALIFORNIA LEGISLATORS' RETIREMENT SYSTEM	28	4 YEARS OF SERVICE CREDIT
0066A	EMPLOYEES' RETIREMENT SYSTEM OF TEXAS	152,167	5 YEARS
0376C	West Virginia Public Safety Death, Disability and Retirement Plan□□(Trooper Plan A)	360	5 years
0211A	MENDOCINO COUNTY ERA	1,347	5 YEARS
0278C	JUDGES' RETIREMENT SYSTEM I (JRS I)	1,091	5 YEARS
0376E	West Virginia Teacher's Retirement System (TRS)	25,278	5 years
0376F	West Virginia Public Employees Retirement System (PERS)	33,976	5 years contributory service
0013A	PA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM	234,210	5 YEARS OF SERVICE
0043D	MN STATE RETIREMENT SYSTEM JUDGES' RETIREMENT PLAN	282	5 YEARS OF SERVICE
0048B	KENTUCKY COUNTY EMPLOYEES' RETIREMENT SYSTEM - NON HAZARDOUS	77,419	5 YEARS OF SERVICE
0048C	KENTUCKY EMPLOYEES' RETIRMENT SYSTEM - HAZARDOUS	4,007	5 YEARS OF SERVICE
0036A	MISSOURI LOCAL GOVERNMENT EMPLOYEES' RETIREMENT PLAN	28,491	5 YEARS OF SERVICE
0001A	PERS OF NEVADA GENERAL EMPLOYEES' PLAN	71,924	5 YEARS OF SERVICE
0001B	PERS OF NEVADA POLICE/FIRE EMPLOYEES' PLAN	8,910	5 YEARS OF SERVICE
0003A	SOUTH CAROLINA RETIREMENT SYSTEM - GENERAL PLAN	204,710	5 YEARS OF SERVICE
0003B	SOUTH CAROLINA RETIREMENT SYSTEM - POLICE OFFICERS' PLAN	24,827	5 YEARS OF SERVICE
0005B	RETIREMENT SYSTEMS OF ALABAMA JUDICIAL PLAN	351	5 YEARS OF SERVICE
0048D	KENTUCKY STATE POLICE RETIREMENT SYSTEM	1,023	5 YEARS OF SERVICE
0048E	KENTUCKY COUNTY EMPLOYEES' RETIREMENT SYSTEM - HAZARDOUS	7,951	5 YEARS OF SERVICE
0058A	CHATHAM COUNTH EMPLOYEES' RETIREMENT PLAN	1,613	5 YEARS OF SERVICE
0060A	STATE COLLEGE BOROUGH - GENERAL PLAN	126	5 YEARS OF SERVICE
0062A	PORTLAND FIRE AND POLICE DISABILITY AND RETIREMENT FUND	1,546	5 YEARS OF SERVICE
0147A	PERS OF IDAHO - GENERAL MEMBERS	55,297	5 YEARS OF SERVICE
0147B	PERS OF IDAHO - POLICE/FIRE MEMBERS	5,091	5 YEARS OF SERVICE
0195G	MONTANA FIREFIGHTERS UNIFIED RETIREMENT SYSTEM	419	5 YEARS OF SERVICE
0376B	West Virginia Deputy Sheriff's Retirement System (DSRS)	468	5 years of service
0070A	TACOMA EMPLOYEES' RETIREMENT SYSTEM	2,814	5 YEARS OF SERVICE
0075A	Defined Benefit Plan for City Employees	6,655	5 YEARS OF SERVICE
0075B	City of Cincinnati Employees Retirement System	6,655	5 YEARS OF SERVICE
0079A	OHIO SCHOOL EMPLOYEES' RETIREMENT SYSTEM	113,811	5 YEARS OF SERVICE
0095A	FT. LAUDERDALE GENERAL EMPLOYEES RETIREMENT SYSTEM	1,363	5 YEARS OF SERVICE
0096A	TEACHER RETIREMENT SYSTEM OF TEXAS	0	5 YEARS OF SERVICE
0097A	LONG BEACH TRANSIT PENSION PLAN - CONTRACT EMPLOYEES	495	5 YEARS OF SERVICE
0104A	TENNESSEE CONSOLIDATED RETIREMENT SYSTEM	190,344	5 YEARS OF SERVICE
0107A	CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM DEFINED BENEFIT PLAN	385,530	5 YEARS OF SERVICE
0109A	TUCSON SUPPLEMENTAL RETIREMENT SYSTEM	3,484	5 YEARS OF SERVICE
0111A	PUBLIC SCHOOL TEACHERS' PENSION & RETIREMENT FUND OF CHICAGO	35,400	5 YEARS OF SERVICE
0113A	VIRGINIA RETIREMENT SYSTEM	286,234	5 YEARS OF SERVICE
0125A	PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO	162,106	5 YEARS OF SERVICE
0126A	FAIRFAX COUNTY UNIFORMED RETIREMENT SYSTEM	1,570	5 YEARS OF SERVICE
0127A	FAIRFAX COUNTY SUPPLEMENTAL RETIREMENT SYSTEM	13,044	5 YEARS OF SERVICE
0128A	FAIRFAX COUNTY POLICE OFFICERS' RETIREMENT SYSTEM	1,115	5 YEARS OF SERVICE
0137A	NEW YORK STATE TEACHERS' RETIREMENT SYSTEM	224,986	5 YEARS OF SERVICE
0138A	MISSOURI STATE EMPLOYEES' RETIREMENT PLAN	57,774	5 YEARS OF SERVICE

0138D	MISSOURI STATE EMPLOYEES' PLAN 2000	0	5 years of service
0143A	ST LOUIS COUNTY LIBRARY DISTRICT EMPLOYEES' PENSION PLAN	316	5 YEARS OF SERVICE
0144A	OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM	158,988	5 YEARS OF SERVICE
0146A	LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOC. PLAN A GENERAL	7,560	5 YEARS OF SERVICE
0147C	PERS OF IDAHO - FIREFIGHTERS RETIREMENT FUND (CLOSED PLAN)	129	5 YEARS OF SERVICE
0154A	NORTH DAKOTA PUBLIC EMPLOYEES' RETIREMENT SYSTEM - GENERAL	17,231	5 YEARS OF SERVICE
0159A	FORT WORTH EMPLOYEES' RETIREMENT FUND	5,423	5 YEARS OF SERVICE
0174A	WASHINGTON PUBLIC EMPLOYEES' RETIREMENT SYSTEM - PLAN I	28,167	5 YEARS OF SERVICE
0174B	WASHINGTON PUBLIC EMPLOYEES' RETIREMENT SYSTEM - PLAN II	168,213	5 YEARS OF SERVICE
0174C	WASHINGTON TEACHERS' RETIREMENT SYSTEM - PLAN I	18,737	5 YEARS OF SERVICE
0174D	WASHINGTON TEACHERS' RETIREMENT SYSTEM - PLAN II/III	8,663	5 YEARS OF SERVICE
0174E	WASHINGTON LAW ENFORCEMENT AND FIRE FIGHTERS' PLAN I	1,743	5 YEARS OF SERVICE
0174F	WASHINGTON LAW ENFORCEMENT AND FIRE FIGHTERS' PLAN II	12,713	5 YEARS OF SERVICE
0174G	WASHINGTON STATE PATROL RETIREMENT SYSTEM	968	5 YEARS OF SERVICE
0177A	PUBLIC SCHOOL RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS	6,100	5 YEARS OF SERVICE
0194A	CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT PLAN - GENERAL	7,436	5 YEARS OF SERVICE
0194B	CONTRA COSTA COUNTY RETIREMENT SYSTEM - POLICE AND FIRE	1,674	5 YEARS OF SERVICE
0195A	MONTANA PUBLIC EMPLOYEES' RETIREMENT SYSTEM	28,091	5 YEARS OF SERVICE
0195B	MONTANA GAME WARDENS AND PEACE OFFICERS RETIREMENT SYSTEM	494	5 YEARS OF SERVICE
0195C	MONTANA JUDGES RETIREMENT SYSTEM	46	5 YEARS OF SERVICE
0195D	MONTANA HIGHWAY PATROL OFFICERS RETIREMENT SYSTEM	190	5 YEARS OF SERVICE
0195E	MONTANA SHERIFFS RETIREMENT SYSTEM	611	5 YEARS OF SERVICE
0195F	MONTANA MUNICIPAL POLICE OFFICERS RETIREMENT SYSTEM	571	5 YEARS OF SERVICE
0202A	NEW YORK STATE & LOCAL EMPLOYEES' RET. SYSTEM - GENERAL	720,223	5 YEARS OF SERVICE
0202B	NEW YORK STATE & LOCAL POLICE AND FIRE RETIREMENT SYSTEM	31,955	5 YEARS OF SERVICE
0206A	MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION	2,968	5 YEARS OF SERVICE
0221A	EAST BAY MUNICIPAL UTILITY DISTRICT	1,853	5 YEARS OF SERVICE
0224D	LA COUNTY METRO TRANSIT AUTH. - NON-CONTRACT EMPLOYEE RIP	427	5 YEARS OF SERVICE
0231A	AURORA GENERAL EMPLOYEES RETIREMENT PLAN	1,493	5 YEARS OF SERVICE
0236A	NEBRASKA DEFINED CONTRIBUTION PLANS - STATE EMPLOYEES	14,689	5 YEARS OF SERVICE
0236B	NEBRASKA DEFINED CONTRIBUTION PLANS - COUNTY EMPLOYEES	6,872	5 YEARS OF SERVICE
0245A	STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS	72,365	5 YEARS OF SERVICE
0245B	STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS (DC PLAN)	5,680	5 YEARS OF SERVICE
0277A	CITY OF ST. LOUIS EMPLOYEE RETIREMENT PLAN	5,948	5 YEARS OF SERVICE
0278D	CALIFORNIA JUDGES RETIREMENT FUND (II)	445	5 YEARS OF SERVICE
0291A	MILWAUKEE COUNTY EMPLOYEES' RETIREMENT PLAN	7,246	5 YEARS OF SERVICE
0303A	ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM	0	5 YEARS OF SERVICE
0315A	LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM	24,234	5 YEARS OF SERVICE
0321A	SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION	5,231	5 YEARS OF SERVICE
0325A	CITY OF GERMANTOWN EMPLOYEE RETIREMENT PLAN	377	5 YEARS OF SERVICE
0353A	DENVER EMPLOYEES RETIREMENT PLAN	10,821	5 YEARS OF SERVICE
0368A	Denver Public Schools Retirement System	7,182	5 YEARS OF SERVICE
0373A	PERA OF NEW MEXICO	54,647	5 YEARS OF SERVICE
0374A	STATE EMPLOYEES RETIREMENT SYSTEM OF MARYLAND	178,456	5 YEARS OF SERVICE
0379A	Kern County Employees' Retirement Assocation	7,109	5 years of service
0387A	CITY OF ENGLEWOOD NON-EMERGENCY PENSION PLAN	231	5 YEARS OF SERVICE
0387B	CITY OF ENGLEWOOD POLICE PENSION PLAN	11	5 YEARS OF SERVICE
0387C	CITY OF ENGLEWOOD FIREFIGHTER'S PENSION PLAN	10	5 YEARS OF SERVICE
0388B	TOWN OF AVON PUBLIC WORKS RETIREMENT PLAN	14	5 YEARS OF SERVICE
0388C	TOWN OF AVON NON-ORGANIZED RETIREMENT PLAN	32	5 YEARS OF SERVICE
0388D	TOWN OF AVON BOARD OF EDUCATION RETIREMENT PLAN	38	5 YEARS OF SERVICE
0388E	Town of Avon 401(a) f.t.Employees' Plan	26	5 YEARS OF SERVICE
0419A	CIVILIAN EMPLOYEES' RETIREMENT SYSTEM OF THE POLICE DEPARTMENT OF K.C., MO.	583	5 YEARS OF SERVICE
0422A	MONTANA TEACHERS' RETIREMENT SYSTEM	18,205	5 YEARS OF SERVICE
0424A	JUDICIAL RETIREMENT SYSTEM OF NEW JERSEY	414	5 YEARS OF SERVICE
0449A	EMPLOYEES' RETIREMENT SYSTEM OF TULSA COUNTY, OKLAHOMA	1,389	5 YEARS OF SERVICE

0453A	CITY OF ARNOLD (MO) POLICE PENSION PLAN	46	5 YEARS OF SERVICE
0454A	SAN BERNARDINO COUNTY EMPLOYEES RETIREMENT ASSOCIATION	15,858	5 YEARS OF SERVICE
0462A	Employees' Retirement System of Montgomery County	6,396	5 YEARS OF SERVICE
0737A	Town of Suffield Pension Plan	138	5 years of service
0146D	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN D: GENERAL	31,300	5 YEARS OF SERVICE AND 10 YEARS OF MEMBERSHIP
0146F	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN A SAFETY	2,005	5 YEARS OF SERVICE AND 10 YEARS OF MEMBERSHIP
0146G	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN B SAFETY	9,259	5 YEARS OF SERVICE AND 10 YEARS OF MEMBERSHIP
0146B	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN B: GENERAL	556	5 YEARS OF SERVICE, 10 YEARS OF MEMBERSHIP
0146C	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN C: GENERAL	413	5 YEARS OF SERVICE, 10 YEARS OF MEMBERSHIP
0063A	TEACHERS' RETIREMENT SYSTEMS OF ILLINOIS	144,975	5 YEARS OF SERVICE; ALSO SINGLE-SUM BENEFIT PAYABLE AT 65 IF < 5 YEARS
0034A	ARKANSAS LOCAL POLICE & FIRE RETIREMENT SYSTEM	7,983	5 YRS
0700A	Defined Benefit - Douglas County Employees Retirement Trust	0	5 yrs
0542A	City of St Petersburg Employee Retirement System	1,796	5 yrs of service
0160A	VIA METROPOLITAN TRANSIT RETIREMENT PLAN	1,409	50% VESTED AT 5 YEARS, GRADED TO 100% AT 10 YEARS OF SERVICE
0043E	MN STATE RETIREMENT SYSTEM LEGISLATORS' RETIREMENT PLAN	173	6 YEARS
0057A	WYOMING WARDEN AND PATROL RETIREMENT PLAN	260	6 YEARS
0165D	UTAH JUDGES' RETIREMENT SYSTEM	104	6 YEARS OF SERVICE
0310A	Iowa Judicial Retirement Fund	194	6 years of service
0007C	ILLINOIS JUDGES' RETIREMENT SYSTEM	908	6 YEARS OF SERVICE (AGE 62); 10 YEARS OF SERVICE (AGE 60); 2 YEARS OF SERVICE (AG
0145A	PERS OF OHIO - STATE AND LOCAL DIVISION	392,530	60 CONTRIBUTING MONTHS
0145B	PERS OF OHIO - LAW ENFORCEMENT DIVISION	7,389	60 CONTRIBUTING MONTHS
0156A	WICHITA EMPLOYEES' RETIREMENT PLAN	1,018	7 YEARS OF SERVICE
0156C	Wichita Employees' Retirement System Plan 3	878	7 years of service
0217A	LANSING BOARD OF WATER AND LIGHT EMPLOYEES'DEFINED BENEFIT PLAN	121	7 YEARS OF SERVICE
0217B	LANSING BOARD OF WATER AND LIGHT DEFINED CONTRIBUTION PENSION PLANS	636	7 YEARS OF SERVICE
0542B	City of St Petersburg Firefighters Retirement System	298	7 years of service
0542C	City of St Petersburg Police Officers Retirement System	457	7 years of service
0371A	SHELBY COUNTY RETIREMENT SYSTEM	6,271	71/2 YEARS OF SERVICE
0007A	ILLINOIS STATE EMPLOYEES' RETIREMENT SYSTEM	80,676	8 YEARS
0037A	KALAMAZOO COUNTY EMPLOYEES' RETIREMENT PLAN	1,064	8 YEARS
0043F	MN STATE RET. SYSTEM ELECTIVE OFFICERS' RET. PLAN	0	8 YEARS
0064D	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - LEGISLATIVE	210	8 YEARS
0110A	ILLINOIS MUNICIPAL RETIREMENT FUND	157,816	8 YEARS
0169A	OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM	42,886	8 YEARS
0173A	WAYNE COUNTY EMPLOYEES' RETIREMENT SYSTEM	5,407	8 YEARS
0183A	MICHIGAN JUDGES RETIREMENT SYSTEM	399	8 YEARS
0007B	ILLINOIS GENERAL ASSEMBLY RETIREMENT SYSTEM	181	8 YEARS (AGE 55); 4 YEARS (AGE 62)
0289A	GOGEBIC COUNTY EMPLOYEES RETIREMENT PLAN	375	8 YEARS OF SERVICE
0304A	ALASKA TEACHERS' RETIREMENT SYSTEM	9,164	8 YEARS OF SERVICE
0329A	CITY OF GRAND RAPIDS GENERAL EMPLOYEES' RETIREMENT SYSTEM	1,176	8 YEARS OF SERVICE
0451A	ELK COUNTY EMPLOYEES' RETIREMENT PLAN	132	8 YEARS OF SERVICE
0474A	VILLAGE OF MOUNT PROSPECT-POLICE	82	8 YEARS OF SERVICE
0195I	MONTANA PUBLIC EMPLOYEES' RETIREMENT DEFERRED COMPENSATION	7,048	ACCOUNT BALANCES ARE FULLY VESTED AT TIME OF DEPOSIT
0087B	NEW HAMPSHIRE RETIREMENT SYSTEM - TEACHERS' PLAN	14,114	AGE 60 W/ ANY YEARS
0235A	NEBRASKA PERS SCHOOL PLAN	34,718	AGE 65 WITH 5 YEARS CREDITED SERVICE; AGE 65 REGARDLESS OF SERVICE
0426A	CONSOLIDATED POLICE & FIREMEN'S PENSION FUND OF NEW JERSEY (CPFPF)	43,331	CLOSED PLAN, NO ACTIVE MEMBERS
0098A	WISCONSIN RETIREMENT SYSTEM	258,195	IMMEDIATE VESTING
0107B	CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM CASH BALANCE PROGRAM	9,552	IMMEDIATE VESTING
0138B	MISSOURI ADMINISTRATIVE LAW JUDGES' RETIREMENT PLAN	52	IMMEDIATE VESTING
0138C	MISSOURI REGULAR JUDGES' RETIREMENT PLAN	375	IMMEDIATE VESTING
0235C	NEBRASKA PERS JUDGES' RETIREMENT PLAN	157	IMMEDIATE VESTING
0505A	VILLAGE OF BOLINGBROOK POLICE PENSION PLAN	86	IMMEDIATE VESTING
0542D	City of St Petersburg	100	immediate vesting
0057B	WYOMING VOLUNTEER FIREMEN'S PLAN	2,118	MUST BE VOLUNTEER UNTIL AGE 60
0090A	Charlotte Firefighters' Retirement Plan	0	
0534A	Miami Shores General Employees Retirement Plan	0	

0650A	Fairfax County Water Authority Retirement Plan	0
0655A	Spokane Employees' Retirement Plan	0
	Number of plans with vesting requirements of 10 or more years	96
	Active members of plans with vesting requirements of 10 or more years	3,662,540
	Number of plans with vesting requirements of less than 10 years	172
	Active members of plans with vesting requirements of less than 10 years	5,988,342
	Number of plans with vesting requirements of 5 years or less	132
	Active members of plans with vesting requirements of 5 years or less	4,908,400

* About 50,000 members in Tier 2

FISCAL NOTE – DRAFT

RESPONDING AGENCY:	CODE:	DATE:	REQUEST NO. BILL NUMBER:
Office of the State Actuary	**035**	**11/12/04**	**Z-0874.1/04**

SUMMARY OF BILL:

This bill impacts the Teachers Retirement System (TRS), School Employee's Retirement System (SERS), and Public Employee's Retirement System (PERS) Plans 3 by lowering the vesting period for the defined benefit portion of these plans from ten years to five.

Effective Date: 90 days after passage.

CURRENT SITUATION:

New Plan 3 members of TRS, SERS, and PERS are vested in the defined benefit portion of their Plan after ten years of service, or after five years of service if 12 months of that service is earned after attaining age 54. Plan 3 members are immediately vested in the defined contribution side of their Plan. Those who transferred from Plan 2 to Plan 3 were automatically vested if they had five years of service in Plan 2 as of July 1, 1996, September 1, 2000 and June 1, 2003, the initial transfer dates for TRS, SERS and PERS respectively.

MEMBERS IMPACTED:

The counts of active vested and non-vested members are shown below. Not included in these counts are terminated non-vested members who would add to the total should they become re-employed. As of the most recent valuation, nearly 48,600 plan 3 members had less than 10 years of service or were not vested in plan 2 on July 1, 1996 in TRS, September 1, 2000 in SERS or June 1, 2003 in PERS, or did not have 5 years of service including 12 months after age 54. Any of these non-vested members would be affected by this bill if they were to quit with between 5 to 10 years of service and before they earned 12 months of service after age 54.

System / Plan	Vested	Non-Vested
PERS 3	10,455	5,054
TRS 3	17,154	28,644
SERS 3	12,025	14,896

FISCAL IMPACT:

Actuarial Determinations:

The bill will impact the actuarial funding of the TRS, SERS and PERS system by increasing the present value of benefits payable under the System (for existing members impacted by this bill) and the required actuarial contribution rate as shown below:

(Dollars in Millions)		Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	**PERS 2/3**	$ 13,093	$ 3	$ 13,096
	TRS 2/3	$ 4,422	$ 11	$ 4,433
	SERS 2/3	$ 1,804	$ 7	$ 1,811
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)		NA	NA	NA
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	**PERS 2/3**	$ (3,924)	$ 1	$ (3,923)
	TRS 2/3	$ (1,715)	$ 5	$ (1,710)
	SERS 2/3	$ (620)	$ 3	$ (617)
Required Contribution Rate (Employer)	**PERS 2/3**	3.78%	**0.01%**	3.79%
	TRS 2/3	3.19%	**0.03%**	3.22%
	SERS 2/3	3.64%	**0.05%**	3.69%

(The PERS rate of 3.78% is composed of the employer normal cost rate of 2.63% and a UAAL rate or "Plan 2/3 Employer for Plan 1" rate of 1.15%. This bill would increase the normal cost rate from 2.63% to 2.64%, the UAAL rate would remain unchanged)

(The TRS rate of 3.19% is composed of the employer normal cost rate of 1.98% and a UAAL rate or "Plan 2/3 Employer for Plan 1" rate of 1.21%. This bill would increase the normal cost rate from 1.98% to 2.01%, the UAAL rate would remain unchanged)

(The SERS rate of 3.64% is composed of the employer normal cost rate of 2.49% and a UAAL rate or "Plan 2/3 Employer for Plan 1" rate of 1.15%. This bill would increase the normal cost rate from 2.49% to 2.54%, the UAAL rate would remain unchanged)

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures (for existing members impacted by this bill) is projected to be:

Effective September 1, 2004	PERS	TRS	SERS
Increase in Contribution Rates:			
Employee	0.01%	0.03%	0.05%
Employer State	0.01%	0.03%	0.05%
Costs (in Millions):			
2004-2005			
State:			
General Fund	$ 0.1	$ 0.7	$ 0.3
Non-General Fund	0.2	0.0	0.0
Total State	**0.3**	**0.7**	**0.3**
Local Government	0.3	0.1	0.3

Effective September 1, 2004	**PERS**	**TRS**	**SERS**
2005-2007			
State:			
General Fund	$ 0.3	$ 2.0	$ 0.8
Non-General Fund	0.5	0.0	0.0
Total State	**0.8**	**2.0**	**0.8**
Local Government	0.7	0.4	0.7
2004-2029			
State:			
General Fund	$ 8.1	$ 47.2	$ 19.4
Non-General Fund	13.3	0.0	0.0
Total State	**21.4**	**47.2**	**19.4**
Local Government	18.8	9.5	17.2

State Actuary's Comments:

This bill does not modify the employee/employer level of cost sharing as defined in the actuarial funding chapter - Chapter 41.45 RCW. As a result, the cost of this plan 3 benefit enhancement is shared equally among plan 2/3 employers and plan 2 employees.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2002 actuarial valuation report of the Teachers Retirement System, School Employee's Retirement System, and Public Employee's Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following: None.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2004 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:
- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by Plan assets.

AN ACT Relating to vesting after five years of service in the defined benefit portion of the public employees' retirement system, the school employees' retirement system, and the teachers' retirement system plan 3; and amending RCW 41.32.875, 41.35.680, and 41.40.820.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.32.875 and 2000 c 247 s 903 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has((~~:~~

~~(a)~~)) completed ((~~ten~~)) five service credit years((~~; or~~

~~(b) Completed five service credit years, including twelve service credit months after attaining age fifty-four; or~~

~~(c)~~)) or completed five service credit years by July 1, 1996, under plan 2 and who transferred to plan 3 under RCW 41.32.817((~~;~~))
shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840.

(2) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed

according to the provisions of RCW 41.32.840, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 2. RCW 41.35.680 and 2000 c 247 s 906 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has((~~:~~

~~(a)~~)) completed ((~~ten~~)) five service credit years((~~; or~~

~~(b) Completed five service credit years, including twelve service credit months after attaining age fifty-four; or~~

~~(c)~~)) or completed five service credit years by September 1, 2000, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.35.510((~~:~~))

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620.

(2) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620, except that a member

retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 3. RCW 41.40.820 and 2000 c 247 s 309 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has((~~:~~

~~(a)~~)) completed ((~~ten~~)) five service credit years((~~; or~~

~~(b) Completed five service credit years, including twelve service credit months after attaining age fifty-four; or~~

~~(c)~~)) or completed five service credit years by the transfer payment date specified in RCW 41.40.795, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.40.795((~~;~~))

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790.

(2) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

--- END ---

Post-Retirement Employment Report

Background

In 2001, Washington State pension law was changed to expand post-retirement employment opportunities for plan 1 of the Teachers' Retirement System (TRS 1) and for plan 1 of the Public Employees' Retirement System (PERS 1). The limitation on the number of hours that a retiree can work in these plans was expanded to 1,500 per year (before suspension of the retirement benefit). The effective date of the law change was July 1, 2001.

The law also called for the office of the state actuary to review the impact of the expansion of the post-retirement employment limitations and prepare a report for the joint committee on pension policy (JCPP) regarding the fiscal and policy impacts of this act.

The committee would solicit information from the superintendent of public instruction, the department of personnel, the office of financial management, the department of retirement systems, and the health care authority regarding the program impacts of this act and report to the legislative fiscal committees on any proposed changes or improvements to this act.

If the state actuary determined the expansion of post-retirement options resulted in increased costs for the state retirement funds, the committee report would include a proposal for a process to charge those employers who employ retirees for the costs incurred by the retirement funds.

Committee Activity

Presentation:
September 16, 2003 - Full Committee Meeting
October 21, 2003 - Full Committee Meeting

Recommendation to Legislature

Forward the report to the fiscal committees with a recommendation to defer any legislative action until further data collection and study results in a more confident conclusion.

Staff Contact

Robert Wm. Baker – 586-9237 – baker_bo@leg.wa.gov

Post-Retirement Employment Report

(November 12, 2003)

Issue Finalizing the Post-Retirement Employment Report and forwarding it to the fiscal committees.

Staff Robert Wm. Baker (360) 586-9237

Reporting Process

1. OSA will present an initial draft of the report to the SCPP at the September 2003 committee meeting. The initial draft will contain an analysis of the fiscal impact of the act based on the data received thus far. The initial draft will also include a brief history and policy background for the subsequent policy impact discussion.

2. Based on the fiscal analysis and impact reported by the State Actuary, the SCPP will determine whether a proposal for a process to charge employers prospectively for any increased costs to the affected retirement systems is necessary.

3. At the October 2003 committee meeting, the SCPP will solicit information from the public and from the Office of the Superintendent of Public Instruction, Department of Personnel, Office of Financial Management, Department of Retirement Systems, and the Health Care Authority regarding the program impacts of this act.

4. Based on this input, the SCPP will prepare a final report for the legislative fiscal committees which may include any proposed changes to the act.

Options

1. Charge individual employers an additional 6% of pay, the member contribution rate, for each year a TRS 1 employer hires a TRS 1 retiree for more than 840 hours. The additional employer charge will stop once the rehired retiree reaches age 60 (the latest normal retirement age of the plan).

2. Defer a proposal to charge individual employers until further data and study is available.

3. Do not charge individual employers, but allow the exact increase in costs to emerge in the TRS 1 unfunded actuarial accrued liability that is paid by all TRS employers.

Executive Committee Recommendation

Option #2.

Select Committee on Pension Policy

2420 Bristol Court S.W., Suite 101 – P.O. Box 40914
Olympia, Washington 98504-0914
Fax: (360) 586-8135   (360) 753-9144   TDD: 1-800-635-9993

September 19, 2003

Senator Dino Rossi, Chair
Senate Ways and Means Committee

Senator Darlene Fairley, Ranking Minority
Senate Ways and Means Committee

Representative Helen Sommers, Chair
House Appropriations Committee

Representative Barry Sehlin, Ranking Minority
House Appropriations Committee

Dear Chair Rossi, Chair Sommers, Senator Fairley and Representative Sehlin:

Section 7 of Chapter 10, laws of 2001, 2nd special session, required the Joint Committee on Pension Policy (JCPP) to submit a report on the fiscal and policy impacts of the change in post-retirement employment provisions to the fiscal committees by October 1st of this year. If the Office of the State Actuary determined that the change in law resulted in increased costs to the retirement funds. The report was to include a proposal for a process to charge those employers who employ retirees for the prospective costs of these provisions.

The Select Committee on Pension Policy (SCPP) has recently replaced the JCPP and will continue with the report on this issue. However, because of the protracted legislative session, and the late start of SCPP interim hearings, we will be unable to forward this report until December 1, 2003. We hope this is acceptable.

Sincerely,

Representative Steve Conway, Chair
Select Committee on Pension Policy

Senator Shirley Winsley, Vice-Chair
Select Committee on Pension Policy

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Select Committee on Pension Policy

Preliminary
Post-Retirement Employment Report
September 2003

Fiscal and Policy Implications of:
Chapter 10, Laws of 2001, 2nd Special Session
(ESSB 5937)

Prepared by:
Matthew M. Smith, State Actuary
Robert Wm. Baker, Sr. Research Analyst
Office of the State Actuary
P.O. Box 40914, Olympia, WA 98504-0914
360-753-9144 – actuary_st@leg.wa.gov

Background:

In 2001, Washington State pension law was changed by expanding post-retirement employment opportunities for plan 1 of the Teachers' Retirement System (TRS 1) and for plan 1 of the Public Employees' Retirement System (PERS 1).

In response to a critical shortage of experienced teachers and other employees with skills that were in high demand, the limitation on the number of hours that a retiree can work in PERS 1 and TRS 1 was expanded to 1,500 per year (before suspension of the retirement benefit). The effective date of the law change was July 1, 2001.

The law also called for a study of the fiscal and policy impacts of the expanded post-retirement program.

Study Mandate: *The office of the state actuary shall review the actuarial impact of the temporary expansion of the post-retirement employment limitations provided by sections 3 and 4 of this act. No later than July 1, 2003, the state actuary shall prepare a report for the joint committee on pension policy regarding the fiscal and policy impacts of this act.*

The joint committee shall solicit information from the superintendent of public instruction, the department of personnel, the office of financial management, the department of retirement systems, and the health care authority regarding the program impacts of this act and shall report to the legislative fiscal committees no later than October 1, 2003, on any proposed changes or improvements to this act.

If the state actuary determines the expansion of post-retirement options under sections 3 and 4 of this act has resulted in increased costs for the state retirement funds, the joint committee report shall include a proposal for a process to charge those employers who employ retirees pursuant to an extension of sections 3 and 4 of this act for the costs incurred by the retirement funds under the extension. (Ch. 10, L of 01, 2nd sp. sess.)

Revised Study Mandate: Sections 5 and 6 of the bill that mandated this study were vetoed. As a result, the sunset date in 2004 that would have terminated the expansion of the post-retirement employment limitations was removed.

Further Program Changes in 2003: Chapter 412, Laws of 2003, made further changes to the post-retirement employment provisions. Of most significance to this study, the law placed new standards and procedures for the future employment of PERS 1 retirees. Specifically, the law created a lifetime limit on the number of hours a PERS 1 retiree may work after being rehired by a PERS eligible employer before suspension of their retirement benefit.

Joint Committee Replaced with the Select Committee on Pension Policy: Also during the 2003 Legislative Session, SHB 1204 (Chapter 295, Laws of 2003) was adopted. This law replaced the Joint Committee on Pension Policy (JCPP) with the Select Committee on Pension Policy (SCPP). The law enacting the mandate for this study was not revised to reflect the replacement of the JCPP. We have assumed that the duties and responsibilities of the original study mandate have transferred from the JCPP to the SCPP.

Proposed Reporting Process: In order to satisfy the study mandate, the Office of the State Actuary (OSA) proposed the following reporting process:

1. *OSA will present an initial draft of the report to the SCPP at the September 2003 committee meeting. The initial draft will contain an analysis of the fiscal impact of the act based on the data received thus far. The initial draft will also include a brief history and policy background for the subsequent policy impact discussion.*
2. *Based on the fiscal analysis and impact reported by the State Actuary, the SCPP will determine whether a proposal for a process to charge employers prospectively for any increased costs to the affected retirement systems is necessary.*
3. *At the October 2003 committee meeting, the SCPP will solicit information from the public and from the Office of the Superintendent of Public Instruction, Department of Personnel, Office of Financial Management, Department of Retirement Systems, and the Health Care Authority regarding the program impacts of this act.*
4. *Based on this input, the SCPP will prepare a final report for the legislative fiscal committees which may include any proposed changes to the act.*

Fiscal Impact:

Background

According to the study mandate, the state actuary shall determine if the expansion of post-retirement employment options under this act has resulted in increased costs for the state retirement systems. If so, the SCPP shall propose a process to charge those employers who employ retirees for the costs incurred by the retirement funds due to the extension.

Data Used in Analysis: The Department of Retirement Systems (DRS) provided quarterly files of rehired PERS and TRS retirees since the effective date of the law change (July 1, 2001). Principle data elements provided by DRS included the following:

- counts of PERS and TRS retirees
- hours worked
- salary
- date retired
- date rehired; and
- occupational information (TRS only).

Annual valuation data from the Office of the State Actuary was also used in the analysis. ***Note: These data have not been audited.***

Actuarial Impact/Analysis

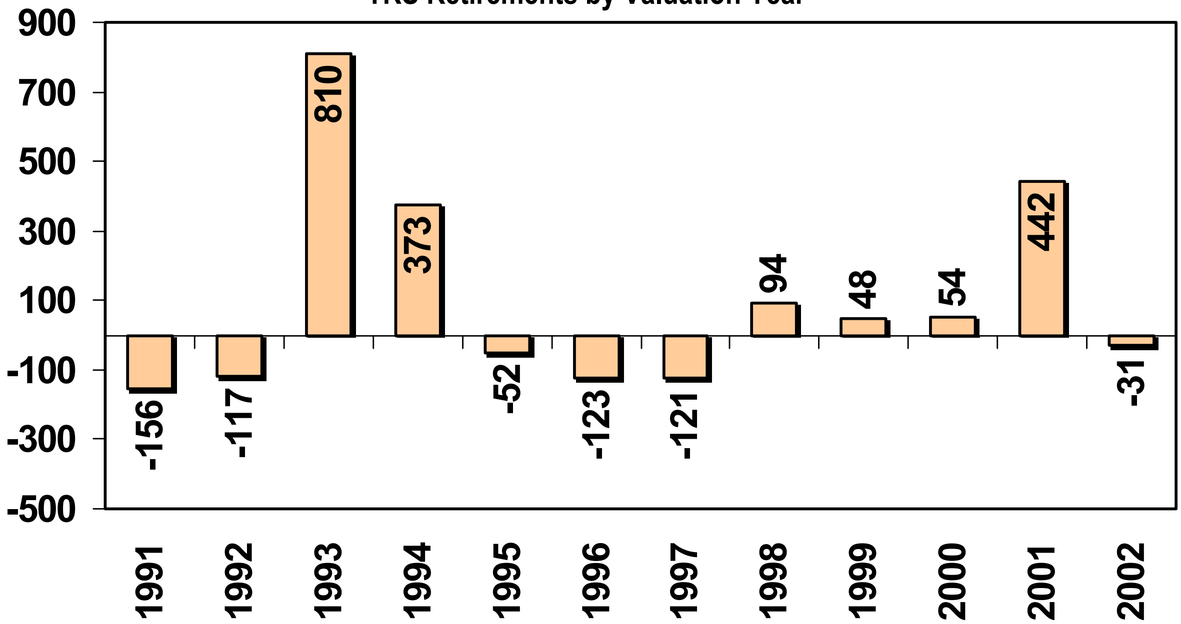
The extension of the number of hours a PERS 1 or TRS 1 retiree may work is not a direct benefit enhancement. In other words, it does not represent an immediate and easily measurable increase in the plan's retirement liability (like an increase in the retirement benefit formula or an increase in the plan's COLA).

Unlike a standard benefit enhancement, the actuarial impact of this program, if any, would surface through a significant increase in the number retirements over what is assumed under normal long-term plan experience. Retirements that were assumed and funded to occur at a later date, on average, would occur earlier. As a result, retirement benefits would be paid sooner than assumed and there would also be a loss of the member's contributions to the trust fund for the period of earlier retirement. PERS 1 and TRS 1 employers who employ retirees for more than the previous annual hourly limits are currently required to make employer contributions for the entire year, so there is no loss of employer contributions.

The cost of earlier retirement (i.e., longer payout) and loss of the member's future contributions outweigh the savings that result from a benefit based on a lower average final compensation and fewer years of service (from earlier retirement). Additionally, there would be limited savings of lower service in the retirement benefit from the earlier retirement of members with 30 or more years of service since the benefit formula in PERS 1 and TRS 1 is capped at 30 years of service (except for the Uniform COLA).

TRS Experience Data: The following Figure demonstrates the number of actual retirements as compared to the number of assumed retirements in TRS 1 during the 1991 through 2002 valuation plan years.

Figure 1
Actual Minus Expected
TRS Retirements by Valuation Year



You will note a downturn in the number of actual retirements in 1991 and 1992. This may have been due to the economic downturn during the period. The large surge in actual retirements during 1993 and 1994 was due to early retirement windows enacted by the Legislature. These windows tend to suppress the number of actual retirements in subsequent years. There also appears to be a significant spike in the number of retirements during 2001 (442 more actual retirements than assumed for the period); the first year of the expanded post-retirement provisions. Care must be used in analyzing these data because of changes in valuation year end dates; 2001 captures more than 1 year of retirements, both actual and expected.

PERS Experience Data: Chapter 412, Laws of 2003, made further changes to the law. Of most significance to this study, the law placed new standards and procedures for the future employment of PERS 1 retirees. Specifically, the law created a lifetime limit on the number of hours a PERS 1 retiree may work after being rehired by a PERS eligible employer before suspension of their retirement benefit. This law change became effective on July 27, 2003.

The new lifetime hours limit will likely change the behavior of future PERS 1 retirees and current PERS 1 retirees that are currently employed in eligible PERS positions. We do not have data available on retirements since the effective date of the law change for PERS 1. As a result, there are insufficient data to determine the actuarial impact of the expanded program on PERS 1 at this time.

Normal Volatility: As noted earlier in this report, from the 2000 valuation to the 2001 valuation date, TRS 1 experienced an excess of 442 retirements over what was assumed for those eligible to retire during that period. 2001 was the first year of the expanded post-retirement employment provisions.

Actuarial assumptions are based on long-term experience periods and are not employed nor anticipated to fit actual experience exactly for an annual period. Under a reasonable set of retirement assumptions, one would expect that the total number of actual retirements would more closely resemble the expected number of retirements over longer-term experience periods (say 5 to 10 years) in aggregate.

So, with this in mind, how much of this deviation in 2001 was due to normal volatility in annual retirement experience? One simple statistical approach to this question is to review the variance and standard deviation of the annual retirement experience. In this context, these statistics measure the deviation of the extra/fewer number of annual retirements from the average number of annual extra/fewer retirements over the sample period.

This calculation is developed in the following table:

Figure 2
Standard Deviation Analysis
Actual and Expected TRS 1 Retirement Experience

			Actual	Actual *	Expected	Actual* minus Expected
7/1/1990	**–**	**6/30/1991**	903	903	1,059	-156
7/1/1991	**–**	**6/30/1992**	911	911	1,028	-117
7/1/1992	**–**	**6/30/1993**	1,893	1,083	1,083	0
7/1/1993	**–**	**6/30/1994**	1,422	1,211	1,049	162
7/1/1994	**–**	**6/30/1995**	1,051	1,288	1,103	185
7/1/1995	**–**	**6/30/1996**	1,003	1,240	1,126	114
7/1/1996	**–**	**6/30/1997**	1,028	1,265	1,149	116
7/1/1997	**–**	**6/30/1998**	1,331	1,568	1,237	331
7/1/1998	**–**	**6/30/1999**	1,359	1,434	1,311	123
7/1/1999	**–**	**6/30/2000**	1,452	1,452	1,398	54
	–	**Standard Deviation****				**159**
7/1/2000	**–**	**9/30/2001**	3,042		2,600	442
10/1/2001	**–**	**9/30/2002**	1,426		1,457	-31

*****The extra retirements in 1992 and 1993 due to the early retirement windows were evenly distributed over the subsequent five years. The 2001 and 2002 plan years were excluded from the sample. Because of changes in the valuation year end date, data for 2001 include more than 1 year for actual and expected retirements.*

*****Based on a population mean value of zero.*

The 442 extra retirements during the 2001 valuation period represent the number of extra retirements from July 1, 2000 through September 30, 2001. Since most TRS 1 members retire effective July 1st, this period represents nearly two years of retirement experience (both actual and expected). The 442 extra retirements during the period is equivalent to a rate of 237 extra retirements per year over the period. This is equivalent to about 1.5 standard deviations from the mean.

Causal Relationship: There are numerous factors that influence an individual's decision to retire. Could the opportunity to work up to 1,500 hours during retirement provide an incentive for TRS 1 members to retire earlier than they otherwise would have and return to work? Yes. Could this expanded opportunity provide a stronger incentive for TRS 1 members with 30 or more years of service to retire earlier? This seems quite possible since the TRS 1 benefit formula is capped at 30 years of service. There are certainly additional factors that may provide a similar incentive. Furthermore, TRS 1 members are not guaranteed post-retirement employment in their former positions.

Unfortunately, there are insufficient data to determine the direct cause for the increase in TRS 1 retirements during 2001. Therefore, we cannot determine the true causal relationship for the increase in retirements. That being said, it does not eliminate the possibility that the increase was due, at least in part, to the expansion in the post-retirement employment provisions. Any increase in the actual number of retirements, over what is assumed, will represent an increase in the TRS 1 retirement liability if the trend were to continue in the future.

Limited Experience Period: How much data are needed to determine if a new trend has been established? Typically, actuaries study retirement plan experience every 5 to 6 years and adjust long-term retirement assumptions based on actual retirement experience over a 5 to 6 year consecutive period for a significant-sized cohort that is eligible to retire.

Substantial changes in plan provisions, like the expansion of the post-retirement employment provisions for TRS 1, may warrant an adjustment to the plan's retirement assumptions sooner than the 5 to 6 year experience study cycle. Under such circumstances, an actuary must use their professional judgment when determining whether an adjustment is necessary and, if so, how much credibility or weight to place on any emerging deviation in plan experience. Such an adjustment would allow the plan sponsor and covered employers to pre-fund any increase in plan liability. This funding approach, however, would charge all employers, whether they employ retirees for extended periods or not.

Actuarial Cost Characteristics: The direct cause of an earlier retirement is not easy to ascertain. The cost of an extra or earlier retirement, however, is a relatively standard actuarial calculation. The dollar cost is the actual retirement liability minus the expected retirement liability (actual minus expected). The expected liability would include projected future salary and service accruals plus the probability of future retirement at each age in the future. The actual liability reflects the liability of an immediate retirement based on salary and service at the valuation date.

Figure 3 displays the cost of earlier retirement for the 527 TRS 1 members that retired and rehired for more than 840 hours per year during the study (about two years of TRS 1 retirement experience). 840 hours was the former annual limit on the number of hours before suspension of the retirement benefit in TRS 1.

Figure 3
Actual Minus Expected Liability
TRS 1 Retirees Working over the Post-retirement Employment Limits

		Over 840 Hours
Count		527
Present Value of Fully Projected Benefits ***($ in thousands)***		
100% Retired	– Actual	$218,979
Remain Active	– Expected	$180,420
Difference		$ 38,559
	– – A v e r a g e s – –	
Present Value of Fully Projected Benefits		
100% Retired	– Actual	$415,519
Remain Active	– Expected	$342,354
Difference		$ 73,165
Difference as % of Expected Salary		31%
Annual Salary		$ 63,319
Service		31
Age		55

The average cost per person is about $73,000. This represents a cost of about 30% of pay, per retiree, for each year of earlier retirement (about 2.5 to 3 years on average in this sample).

This analysis of the cost characteristics in this section is limited by the availability of only 15 months of experience. Further study with additional years of data will increase the confidence and significance of the analysis. The cost of an earlier retirement, however, is a relatively stable percentage of pay for each year of earlier retirement.

Conclusion – Actuarial Analysis

Based on the above analysis, the state actuary has determined that the expanded post-retirement provisions of Chapter 10, Laws of 2001, 2nd special session, has resulted in increased costs for TRS 1. The exact cost to TRS 1, however, is not easily measurable with a high degree of accuracy or confidence. These limitations do not eliminate the presence or possibility of a cost to the plan.

Due to recent changes to the original retiree law affecting PERS 1, there are insufficient data to determine the actuarial impact of the expanded program on PERS 1 at this time.

Initial actuarial analysis suggests that the expanded program has resulted in an apparent increase in the number of actual TRS 1 retirements (as compared to what is assumed and funded through the actuarial valuation). This analysis is limited by availability of only 15 months of experience data and the lack of sufficient data to determine a direct causal link in the increase in TRS 1 retirements to the expansion of the post-retirement provisions.

Preliminary costs for each additional or earlier retirement as a percentage of an individual TRS 1 member's salary for employers hiring TRS 1 retirees for more than 840 hours is approximately 30% for each year a TRS 1 member retires earlier than was assumed in the actuarial valuation (on average). Cost estimates based on group averages that are applied to individual retirees, by definition, will undercharge some employers and overcharge others. Additionally, there is no clear-cut method of determining whether a retiree, on an individual basis, is an extra retirement.

Options:

1. Charge individual employers an additional 6% of pay, the member contribution rate, for each year a TRS 1 employer hires a TRS 1 retiree for more than 840 hours. The additional employer charge will stop once the rehired retiree reaches age 60 (the latest normal retirement age of the plan).
2. Defer a proposal to charge individual employers until further data and study is available.
3. Do not charge individual employers, but allow the exact increase in costs to emerge in the TRS 1 unfunded actuarial accrued liability that is paid by all TRS employers.

Analysis of Options:

Option 1 would recognize a portion of the increase in cost to TRS 1. The additional 6% employer charge is well below the average 30% charge for each year of earlier retirement, but would mitigate the consequences of applying an average rate for extra or earlier retirements to an individual employer. Additionally, the reduced employer charge of 6% recognizes the limited credibility of the preliminary nature of the data and analysis.

Option 2 would not recognize the increase in cost to TRS 1 (at least, not initially). As a result, the added cost incurred between now and adoption of the final employer charge would roll into the unfunded actuarial liability in TRS 1 and the cost would be amortized at June 30, 2024 as a level percentage of future TRS payroll for all TRS employers. This approach, however, would allow for the collection of additional data and would lead to an eventual employer charge with higher credibility.

Option 3 does not satisfy the study mandate since it would not result in a charge for only the individual employers that employ TRS 1 retirees for more than 840 hours per year. This approach, however, would eliminate the difficulty of devising a method of determining whether an individual retirement for a single employer has resulted in an extra or earlier retirement.

SCPP Proposal(s) - Fiscal

Proposal(s) determined in the next reporting phase.

Policy Implications

Background

The expansion of rehire opportunities for retirees was to accommodate the human resource needs of public employers -- school districts in particular. Many districts, particularly those in high cost urban areas, had difficulty filling teacher vacancies during the most expansive point in the last business cycle. Because public employers have little flexibility in the use of salary increases to attract job applicants, it was felt that use of pension policy to provide financial incentives for the existing teacher population, particularly recent retirees, would be a reasonable substitute.

Legislative History: At their inception, Washington's public retirement plans forbade members from returning to work at an employer within the same retirement plan. Were a retired PERS member to return to work for any PERS employer, their retirement benefits would be suspended until they terminated completely.

These restrictions were applicable to PERS or TRS retirees returning to work for a PERS or TRS employer. Retirees were never under any restriction regarding private employment, working for another state, or opportunities in the Federal government.

- *The 5 month Standard:* In the mid-1960s, the post-retirement employment door was opened. Legislation was passed in 1965 allowing retirees to return to work in ineligible positions – those requiring 5 months or less work per year.

- *TRS Follows Suit:* That 5-month standard in PERS -- 5/12ths of a year -- carried over to members of TRS as well. However, that 5/12ths was translated into 75 days (5/12ths of 180 days in the school year); as a result, TRS retirees were allowed to return to work for 75 days per school year in substitute positions.

Early on, the 75-day standard for TRS retirees was translated into 525 hours using an average of 7 hours per school day. This hourly measure was more accommodating for secondary school substitutes who might not teach for an entire school day.

In this last business cycle, with labor shortages being felt in most industry sectors, the 525-hour standard for retired teachers returning to work as substitutes was enhanced to 840 hours for school districts that had documented teacher shortages. TRS retirees were allowed to work up to 2/3rds of a school year as a substitute teacher or substitute principal in such a district (7 hour per day × 120 days of the school year = 840 hours). A TRS retiree returning to work as a substitute administrator was allowed to work up to 630 hours in a district where the school district board of directors adopted a resolution declaring that the services of the retiree were necessary because they could not find a replacement administrator to fill the vacancy.

2001 Legislation: While the ability of PERS and TRS retirees to return to work had been well established, legislation was passed in 2001 to address several issues. The Joint Committee on Pension Policy (JCPP) wanted to address a PERS return-to-work issue relating to how the 5-month allowance had been interpreted, and they wanted to standardize the 840 hour limit for all TRS retirees returning to work as substitutes in all school districts. The Governor's office wanted to help address the teacher shortage situation by allowing retired teachers to return to work full-time without a suspension of their retirement benefit thus receiving a full salary along with their retirement allowance (see Appendix C).

- *An Hour is a Month*: When the provision was passed allowing PERS retirees to return to work for 5 months, the statute was interpreted to mean that any time worked in a given month would debit that month from the 5-month allowance. For example: if a PERS retiree began work on January 1st, they would be eligible to work full time through the end of May; or if they began work on January 31st they would still only be eligible to work through the end of May. This interpretation allowed a PERS retiree to work on a full-time basis in only monthly increments.

- *An Hour is an Hour*: The JCPP proposed a bill that would allow PERS members to work 867 hours per year. This was a simple translation of the monthly limit into hours (5/12ths × 2080 hours per year). By amending the statute to read in hours, retirees and employers would be given greater flexibility in scheduling; instead of being limited to working full-time for 5 months, retirees would now be able to work part-time schedules for a greater part of the year.

- *2/3rds of a School Year*: The JCPP also forwarded a bill to the legislature increasing the amount of time TRS members could work in post-retirement situations. Formerly, members were limited to 525 hours of work as substitute teachers, or in districts with documented shortages, 630 hours as substitute administrators, or 840 hours as substitute teachers or principals. The JCPP bill proposed standardizing the post-retirement hourly limit to 840 hours for all TRS retirees returning to work as substitutes, be they teachers, administrators, or principals.

- *Coming Back Full Time*: At the same time the JCPP was proposing its legislation, the Governor's office requested legislation allowing TRS retirees to return to work for up to 1,500 hours in a school year. This hourly standard would allow TRS retirees to return to work full time as teachers since no school district had standard contracts requiring more than an 8 hour work day (8 hours per day x 183 contract days = 1,464 hours per contract year). As a result, retirees could return to work and, if they worked the entire school year, receive a full salary along with their full retirement allowance. More importantly, this legislation would also allow TRS retirees to return to work in other than substitute positions.

The 1,500 hour standard was proposed for PERS retirees as well. This would allow PERS retirees to work almost 9 months of the year without their benefit being suspended. As a result, PERS 1 retirees could return to work and, if they worked the full year, receive a full salary and three-quarters of their retirement allowance.

To help alleviate any potential cost of this change, the bill required that employers engaging a retiree for more than 867 hours, the earlier PERS standard, pay employer contributions to the retirement system for the entire time of the retiree's employment.

- *Without Reference*: In an unusual development, both the JCPP bill amending the post-retirement provisions in the TRS chapter (Ch. 317, L of 01, 1st sp. sess.) and Ch. 10, L of 01, 2nd sp. sess. passed into law in 2001. Since neither bill referenced the other, both were codified. With both provisions codified, legal precedent required that the more advantageous provision apply, thus the 1,500 hour limit became the standard.

  The JCPP bill amending the TRS chapter contained language giving the legislature the right to amend or repeal the section assuring that no member has a contractual right to 840 hours per year of post-retirement employment. The governor's request legislation contained similar language, giving the legislature the right to amend or repeal these sections and assuring that no member has a contractual right to more than 525 hours per year of post-retirement employment in TRS or 867 hours in PERS.

Post 2001 Legislation: Numerous bills were introduced after the passage of Ch. 10, L of 01, 2nd sp. sess. that sought to add provisions that both employers and members would have to follow. These provisions attempted to:

- Forbid the hiring of a retiree if there were four or more qualified applicants for the job. (Did not pass.)

- Increase the separation period after retirement before members could return for the 1,500 hours. (Passed: Increased to 90 days in PERS.)

- Require employers to provide documentation of a shortage before being allowed to hire a retiree. (Passed: Applicable to PERS employers.)

- Require employers to keep human resource records that could be audited to assure they follow existing hiring policies. (Passed: Applicable to PERS employers.)

- Limit the total number of hours a retiree could work beyond the former annual limit. (Passed: limited PERS rehires to 1,900 hours beyond the annual 867 hour limit.)

- Forbid verbal agreements to return to work. (Passed: applicable to PERS.)

In-Service Distributions

Verbal Agreements: The old caveat says that a verbal agreement is as good as the paper its written on. Old caveats die hard. Understanding verbal agreements is important because written agreements to return to work were forbidden, verbal agreements were not. There is considerable difficulty in enforcing any regulation against verbal agreements.

What Constitutes Separation: In order to be considered fully separated from their employer, PERS and TRS members must, after the effective date of their retirement, be gone for one calendar month. The effective date of a member's retirement is the first day of the month following the month in which they retired. A PERS member whose last day of employment was June 30th would have a July 1st retirement date. If they wished, they would be eligible to return to work on August 1st.

What Constitutes Retirement: The matter of what constitutes retirement arises in the melding of the "return-to-work agreement" issue and the "separation" issue. While this may seem rather academic, it could eventually be a matter effecting state policy and federal policy as well.

All qualified retirement plans, public and private, are governed by Federal statutes. The tax status of retirement plans is based on their adherence to these regulations. The litany of chapter and sub-chapter numbers of the Internal Revenue Code are familiar though not necessarily well understood: 401(a), 401(k), 403(b), 457 and so on. But one of the fundamental regulations governing public defined benefit plans is that no "qualified" retirement plan can provide "in-service distributions;" a member cannot receive their retirement benefit while still working.

With the potential for a verbal return-to-work agreement between an upcoming retiree and their employer, such a member's actual separation may be called into question. If it were determined that such agreements negated the separation of the employee from the employer, that could potentially disqualify a retirement plan allowing such an agreement. A disqualified plan would be subject to significant tax liabilities for the employee and employer.

The IRS does allow a great deal of leeway in their dealings with public retirement plans. Most recently, that leeway has allowed plans to engage in what are called transitional policies; easing members into retirement. This plan modification, however, has little resemblance to a transitional retirement policy; it is more related to personnel policy (filling hard-to-fill positions).

At its extreme, a verbal agreement to return to work may result in questions as to whether such an employee actually separated from their employer, and whether they are retired.

Other States / Systems: How do the post-retirement employment provisions in Washington State's public retirement systems compare to other states? Compared to other states', Washington's post-retirement employment provisions appear fairly typical. The following table illustrates the provisions governing post-retirement employment from select state retirement systems – the choice based on the largest systems, neighboring states, and a number of peer states based on population (see Figure 4).

Within this comparison, only Michigan's provision prohibits a member from working after they retire. Other states allow members to work a fixed number of hours for a plan employer after they retire (Calpers, Idaho, Oregon). Others allow a member to earn a fixed amount of salary (CalStrs, New York PERS and TRS). And others allow members to work full time (Kentucky and Texas).

Figure 4
Rehire Provisions from Select State Retirement Systems

State / System	Post-Retirement Employment Provisions
CALPERS	May work a maximum of 960 hours
CALSTRS	May earn a maximum of $24,934
Idaho PERSI	May work less than half time for public employment and less than half time contract for teachers
Kentucky PERS	May return to a different job in the same retirement system and earn an additional benefit. After age 65 (or 55 for hazardous duty employees), may return to any position and earn an additional benefit if reemployed full-time.
Kentucky TRS	May return full-time with a different employer after three month separation, or return to the same employer after a one year separation. Pay limited to 75% of last salary and employers limited to using rehires in 4% of positions.
Michigan SERS	Retirement allowance will be suspended for any month for which state wages are paid
New York PERS & TRS	May earn a maximum of $25,000
Ohio PERS and STRS	After 2 month separation may return full time but must contribute to a separate annuity.
Oregon PERS	May work a maximum of 1,039 hours
Texas PERS	May work full time with no contributions and no added benefit.

Other Rehire Characteristics

System: While rehires are found among both PERS and TRS members, the largest number come from the TRS ranks (see Figure 5).

Figure 5
Rehires by System and
Percent of Total Annuitants

	PERS	TRS
Total Rehires	2,542	5,168
Percent of Annuitants	4.1%	15.6%

Comparing rehires by their ratio to total annuitants results in an even greater incidence of rehire activity by TRS members; some 15.6% of TRS retirees returned to work in a TRS position while 4.1% of PERS retirees returned to a PERS position.

Rehire Characteristics Data: In the following section of the report these data have been arrayed into groupings of members who were:

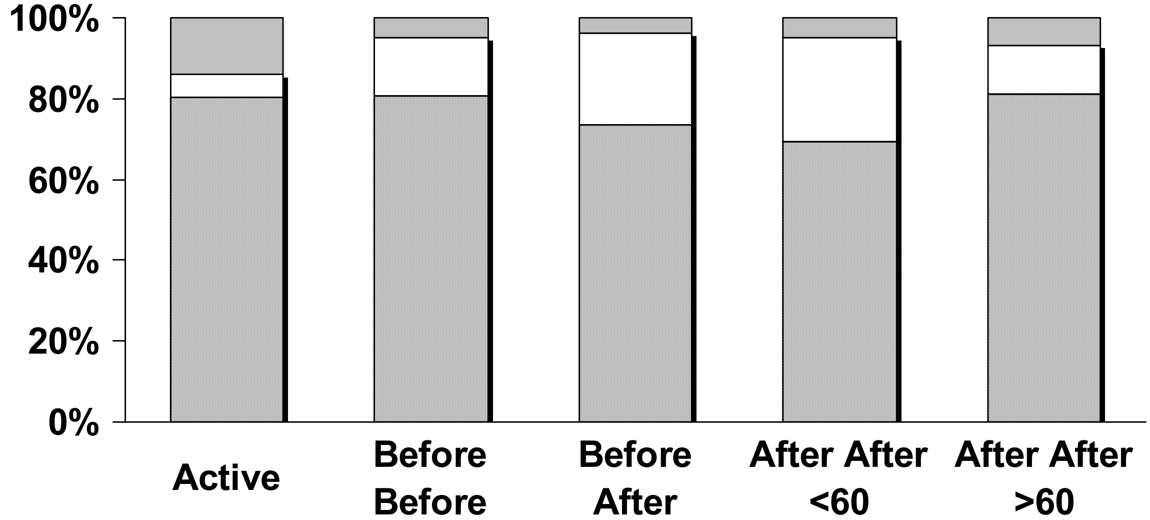
- **Before Before** – retired and rehired before the effective date of these changes,
- **Before After** -- retired before and rehired after the changes,
- **After After <60** -- retired after the changes and rehired within 60 days of separation, or
- **After After >60** -- retired after the changes and rehired after 60 days of separation.

Plus, each of these groupings is split between those working above and below the old post-retirement hourly thresholds – 867 hours in PERS and 840 hours in TRS.

Occupations: The Department of Retirement Systems collects some rudimentary occupational information on TRS retirees but none on PERS retirees. The occupational distribution of PERS retirees can only be presumed via other measures like salary.

The occupations of TRS retirees fall within three large categories – teachers, administrators, and others (see Appendix A for detail). Two items are evident in the occupational distribution of active and rehired TRS members, the greater use of administrators in rehire situations, and the lesser use of those in "other" occupations (see Figure 6). While administrators constitute 5.7% of all TRS occupations in Washington's schools, over 25% of those rehired within 60 days of retirement have been in administrator positions. This may be called a desirability effect. These patterns hold for both PERS and TRS members. This may also be a borrowing phenomenon; those higher salaried / managerial members retiring during this period will not be included in the future averages; thus the characteristics of future retirees may exhibit a moderating age, member service, and salary profile.

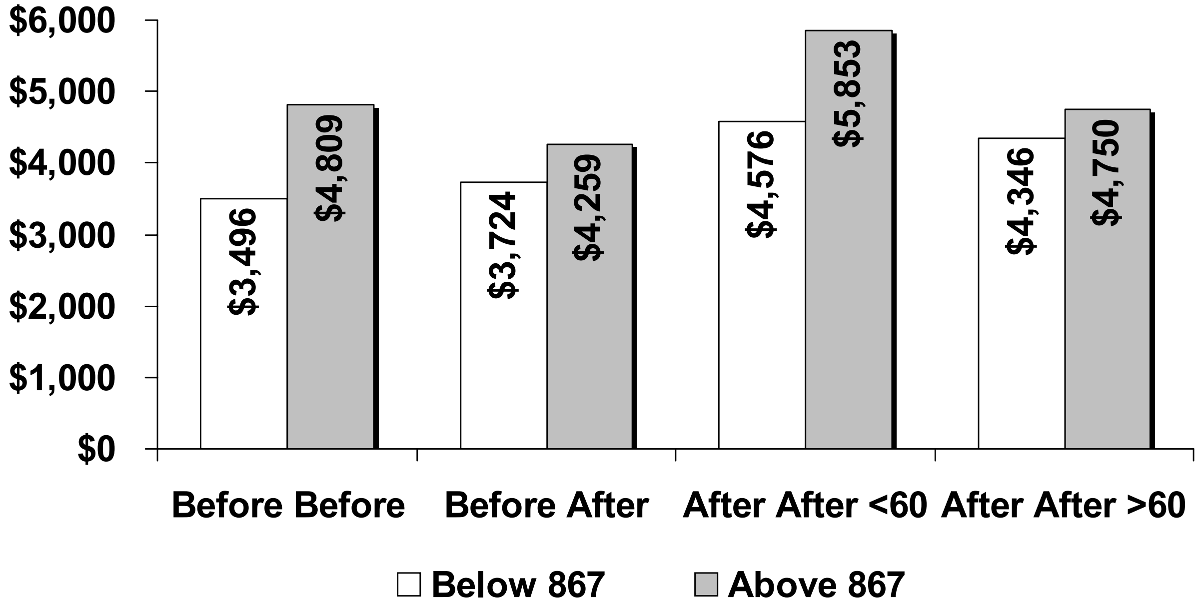
Figure 6
Occupational Share of Active TRS Members and Rehired TRS Members Working Over 840 Hours During the 2002-03 School Year by Period of Retirement



	Active	Before Before	Before After	After After <60	After After >60
Other	14.0%	5.1%	3.7%	5.0%	6.8%
Admin	5.7%	14.3%	22.9%	25.7%	12.0%
Teach	80.3%	80.6%	73.4%	69.3%	81.2%

Average Final Compensation: Another measure to examine in these retire-rehire characteristics is salary; because there is no occupational identifier in PERS retirement data as there is in TRS, salary is used as a proxy. If there were a greater share of managerial retirees in the current rehire situations, that would portend a higher average final compensation (AFC). This was the case as PERS 1 retiree AFC rose significantly when comparing select rehires (see Figure 7). Even after discounting for some inflation, this may be an indication that more senior administrative and managerial members represented a greater share of recent rehires.

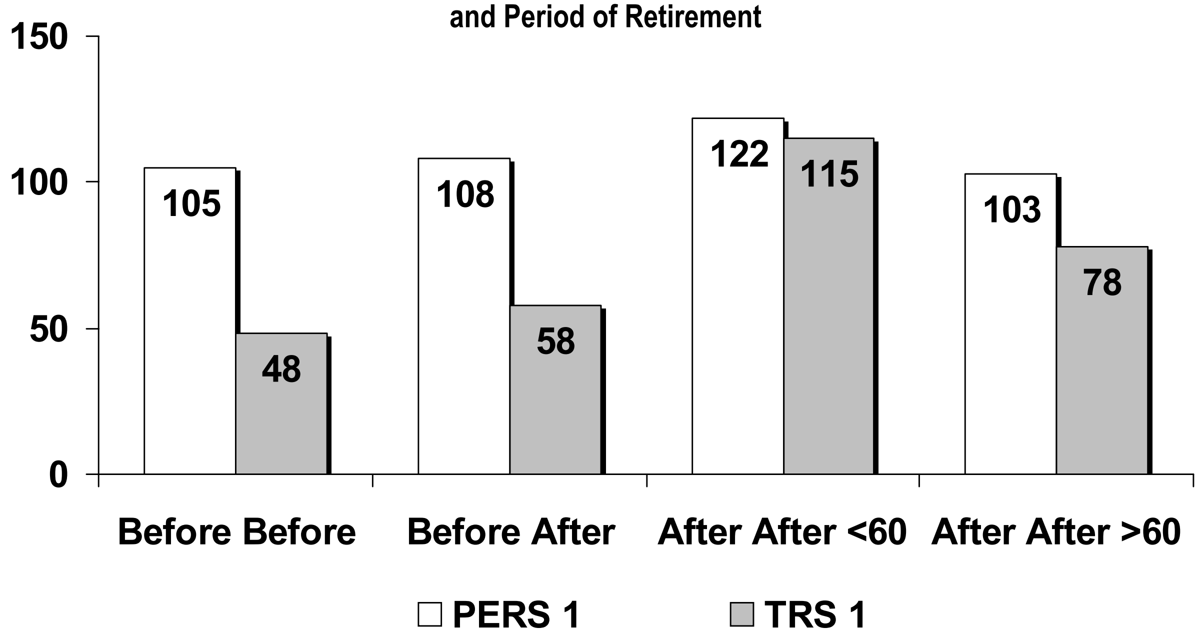
Figure 7
PERS 1 Rehires by AFC,
Amount Working, and Period of Retirement



Rehire Hours: Because of the interpretation of the 5-month provision, PERS retirees who returned to work could not spread out their hours, as could TRS members. As a result, they tended to work more hours per month but for fewer months. The changes in post-retirement provisions allowed PERS 1 members to work almost twice as much as before in terms of total hours, but also gave them, and their employers, the option of working part-time for the whole year.

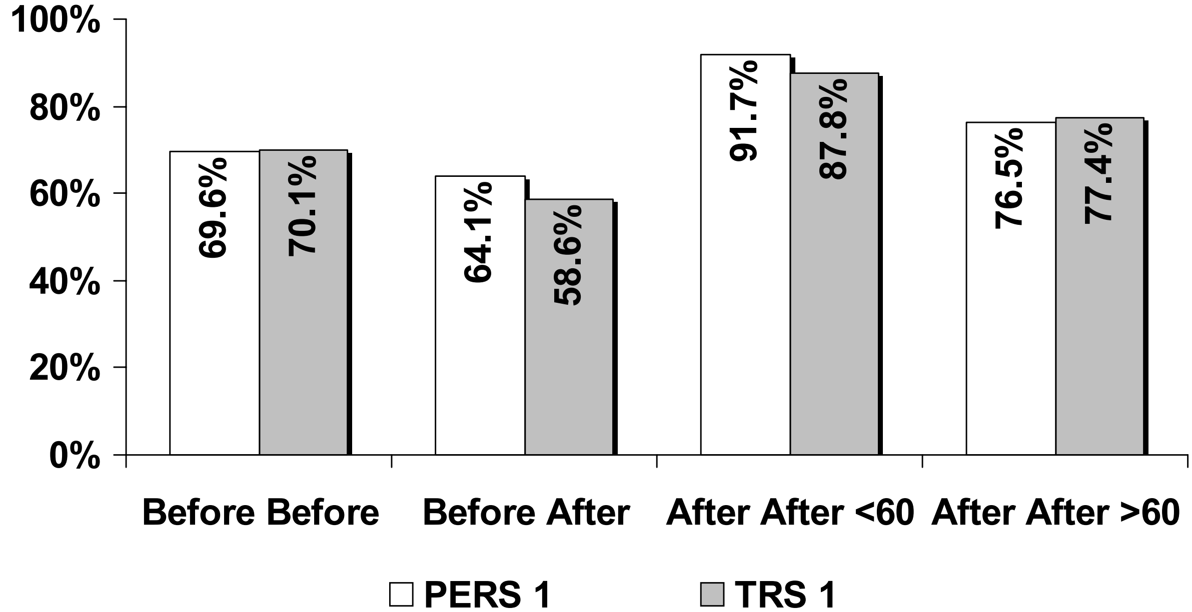
The greater increase in hours among the TRS members returning to work, compared to PERS, may be the result of the new opportunity to work full-time instead of as substitutes (see Figure 8).

Figure 8
PERS 1 and TRS 1 Rehires by Hours per Month
and Period of Retirement



Return to Where: When retirees return to employment, where do they return? For the most part, they return to their former employers. While a number of retirees do use retirement to change employers and seek other opportunities, they tend to be in the minority. Prior to the changes in the post-retirement statutes, approximately 2/3rds of rehires who returned to work did so with their last employer (see Figure 9). In the period immediately following the changes, nine out of ten rehires returning within 60 days returned to the same employer from which they retired.

Figure 9
PERS 1 and TRS 1 Rehires by
% at Same Employer and Period of Retirement



Who Uses Rehires: Many employers use retirees as part of their human resource policy. This analysis examines those employers who had 5 or more retirements and more than a 20% rate of rehire. Some 130 employers met that criteria, 89 TRS employers and 41 PERS employers – 18 of those PERS employers were school districts or community colleges as many of their administrative staff are not certified and are either PERS or SERS members.

As TRS members constitute the majority of rehires, it would hold that school districts be the most common employers. The largest such employer is the Seattle School District, employing 80 rehires as of the end of 2002 (see Figure 10). The top rehire employers are school districts within the Puget Sound region. That these tend to be among the largest school districts in the state is one of the reasons they employ large numbers of rehires. In addition, it is within this region where all employers experienced significant labor shortages at the peak of the last business cycle.

A number of PERS employers also employ a significant number of rehires. The Department of Social and Health Services employed 44 rehires; this number is relatively middling considering the size of DSHS, and their large number of retirees. The State Department of Transportation is the next PERS employer on the list with 23 rehires.

Lake Stevens School District is noteworthy in that all those it rehired were on pace to work full time. Lake Stevens is not the only such employer (see Appendix B): all the retirees rehired by The Department of Information Services, McNeil Island Correctional Facility, Kiona- Benton City School District, Grandview School District, and Ellensburg School District were on pace to work beyond the earlier hourly limits.

Figure 10
Rehires by Employer Ranked by Number Working Above Earlier Limit
From July 1, 2001 to December 1, 2002

Department Name	Retirees	Rehires	Over 840-867 Hour Threshold
Seattle SD	225	80	35
North Thurston SD	64	46	27
Highline SD	75	38	25
DSHS	294	44	21
Lake Washington SD	70	30	18
Renton SD	46	32	18
Northshore SD	55	33	12
Shoreline SD	50	19	12
DOT	116	23	12
Tacoma SD	129	65	11
Edmonds SD	77	32	11
Lake Stevens SD	19	11	11
Kent SD	79	28	10
Auburn SD	45	14	10
Issaquah SD	43	20	9

Unemployment Insurance Issue

Unemployment insurance (UI) is provided to those that lose their jobs. To qualify, a worker had to have been in a job covered by unemployment insurance, have worked 680 hours in 4 of the last 5 calendar quarters, and be without work through no fault of their own.

Workers who retire are not unemployed – they have voluntarily left employment and do not qualify for UI. By returning to work, however, most retirees place themselves on a new rung of the labor market ladder. The majority of retirees in public sector return-to-work arrangements are no longer in permanent jobs. They no longer have an expectation of continued employment beyond a fixed point in the future – normally less than one year. As a result, when they separate from that job, they are considered unemployed. And if they worked at least 680 hours in that job, they are eligible for UI.

State and local governments in general have a low incidence of employee lay-offs or reductions in force (RIFs). There are a variety of government employers – parks departments, and even schools -- that use seasonal employees. But even these employees have a reasonable expectation of continued employment; school employees don't work in July and August, but know they have a job come September. As a result, the unemployment taxes paid by State and Local government are quite low on the tax schedule. However, by hiring a retiree who may, at the end of their employment, be eligible for UI, government employers may be increasing their unemployment tax liability. While this is not a cost to the retirement plans, it is a cost nonetheless. Recent legislation (SHB 1829, C412 L03) requires DRS and the Employment Security Department to notify employers about the possible unemployment compensation consequences of hiring retirees.

Retirees Return

It appears that retirees are attracted back to public employment by increasing the number of hours they are allowed to work before their benefit is suspended. This can be seen when comparing the counts over time of retirees who already had some post-retirement work experience, and counts of other retirees whose original retirement decision could not have been influenced by the change in statute. These two groups of retirees experienced an increase of 1,347 workers between June and December of 2002 (see Figure 11).

Figure 11
Counts of Rehires Whose Original Retirement Decision
Was Not Influenced by Ch. 10, L of 01, 2nd sp. sess.

Period Ending	Before Before		Before After		Total
	PERS 1	TRS 1	PERS 1	TRS 1	
June 02	711	1,281	621	1,767	4,380
Dec 02	924	1,527	1,022	2,254	5,727
Increase	213	246	401	487	**1,347**

Stakeholder Input

The SCPP will solicit information from the public and from OSPI, DOP, OFM, DRS and HCA regarding the program impacts of this act.

SCPP Proposal(s) - Policy

Proposal(s) determined in the next reporting phase.

Appendix A

Department of Retirement Systems Occupational Classification for TRS Members

Duty/Assignment*	Individuals*	DRS Classification
Superintendent	279	Administrator
Deputy/Assist. Supt.	159	Administrator
Other District Admin.	1,032	Administrator
Elementary Principal	1,171	Administrator
Elem. Vice Principal	170	Administrator
Secondary Principal	653	Administrator
Secondary Vice Principal	775	Administrator
Other School Admin.	394	Administrator
Elementary Teacher	31,548	Teacher
Secondary Teacher	26,298	Teacher
Other Teacher	7,416	Teacher
Other Support Personnel	3,340	Other
Library Media Specialist	1,457	Other
Counselor	2,231	Other
Occupational Therapist	379	Other
Social Worker	139	Other
Spch.-Lang. Path./Audio.	1,095	Other
Psychologist	936	Other
Nurse	512	Other
Physical Therapist	152	Other
Reading Resource Spec.	20	Other
Extracurricular	1,101	Other
Substitute Teacher	52	Teacher
Certificated on Leave	497	Depends on role when active

**From Washington State Superintendent of Public Instruction, School District Personnel Summary Profiles.*

Appendix B

RETIREE RETURN TO WORK SUMMARY FOR DECEMBER, 2002

Percentage of Rehire by Department for Members Retiring Between JULY 2001 and DECEMBER 2002
Departments having 5 or more retirements and more than a 20% rate of rehire

		Rehires		Over limit	
DEPARTMENT NAME	**Retirees**	**Number**	**Percent**	**Number**	**Percent**
NACHES VALLEY SD 003 JT	10	10	100.0%	8	80.0%
WHITE RIVER SD 416	9	9	100.0%	4	44.4%
PUYALLUP SD 003	57	53	93.0%	5	9.4%
UTILITIES & TRANSPORTATION COM	7	6	85.7%	0	0.0%
KIONA-BENTON CITY SD 052	6	5	83.3%	5	100.0%
DEER PARK SD 414	6	5	83.3%	0	0.0%
ENUMCLAW SD 216	15	12	80.0%	6	50.0%
KELSO SD 458	12	9	75.0%	5	55.6%
TUKWILA SD 406	8	6	75.0%	4	66.7%
ANACORTES SD 103	8	6	75.0%	2	33.3%
N THURSTON PUBLIC SCHOOLS - SD	64	46	71.9%	27	58.7%
RENTON SD 403	46	32	69.6%	18	56.3%
KETTLE FALLS SD 212	6	4	66.7%	0	0.0%
SELAH SD 119	6	4	66.7%	0	0.0%
UNIVERSITY PLACE SD 083	17	11	64.7%	7	63.6%
CAMAS SD 117	11	7	63.6%	4	57.1%
SEATTLE COMMUNITY COLLEGE	18	11	61.1%	0	0.0%
EASTMONT SD 206	18	11	61.1%	4	36.4%
NORTHSHORE SD 417	55	33	60.0%	12	36.4%
FERNDALE SD 502	20	12	60.0%	5	41.7%
LAKE STEVENS SD 004	19	11	57.9%	11	100.0%
MERCER ISLAND SD 400	21	12	57.1%	5	41.7%
YELM SD 002	14	8	57.1%	6	75.0%
GREEN RIVER COMMUNITY COLLEGE	7	4	57.1%	0	0.0%
SUNNYSIDE SD 201	7	4	57.1%	0	0.0%
SUNNYSIDE SD 201	7	4	57.1%	2	50.0%
WAPATO SD 207	7	4	57.1%	3	75.0%
BREMERTON SD 100	18	10	55.6%	4	40.0%
CORRECTIONS AIRWAY HTS CORR CT	9	5	55.6%	0	0.0%
THURSTON CO	9	5	55.6%	1	20.0%
SHELTON SD 309	9	5	55.6%	3	60.0%
GRANDVIEW SD 200	9	5	55.6%	5	100.0%
MOUNT VERNON SD 320	13	7	53.8%	1	14.3%
HIGHLINE SD 401	75	38	50.7%	25	65.8%
TACOMA SD 010	129	65	50.4%	11	16.9%
MONROE SD 103	14	7	50.0%	2	28.6%
SEDRO WOOLLEY SD 101	12	6	50.0%	4	66.7%
QUILLAYUTE SD 402	8	4	50.0%	1	25.0%
COLVILLE SD 115	8	4	50.0%	3	75.0%
STEILACOOM HISTORICAL SD 001	6	3	50.0%	2	66.7%
CLOVER PARK TECHNICAL COLLEGE	6	3	50.0%	1	33.3%
KENNEWICK SD 017	37	18	48.6%	5	27.8%
ISSAQUAH SD 411	43	20	46.5%	9	45.0%
ELLENSBURG SD 401	11	5	45.5%	5	100.0%
BURLINGTON-EDISON SD 100	11	5	45.5%	0	0.0%
PORT ANGELES SD 121	27	12	44.4%	6	50.0%
MUKILTEO SD 006	18	8	44.4%	2	25.0%
SNOQUALMIE VALLEY SD 410	16	7	43.8%	3	42.9%
STANWOOD SD 401	16	7	43.8%	5	71.4%
SEQUIM SD 323	9	4	44.4%	2	50.0%

Appendix B

Continued

DEPARTMENT NAME	Retirees	Rehires Number	Rehires Percent	Over limit Number	Over limit Percent
LAKE WASHINGTON SD 414	70	30	42.9%	18	60.0%
SUPERINTENDENT OF PUBLIC INSTR	14	6	42.9%	5	83.3%
TAHOMA SD 409	14	6	42.9%	2	33.3%
ROCHESTER SD 401	7	3	42.9%	0	0.0%
LYNDEN SD 504	7	3	42.9%	1	33.3%
EDMONDS SD 015	77	32	41.6%	11	34.4%
BELLINGHAM SD 501	36	15	41.7%	2	13.3%
OAK HARBOR SD 201	24	10	41.7%	1	10.0%
BAINBRIDGE ISLAND SD 303	17	7	41.2%	4	57.1%
BELLEVUE SD 405	60	24	40.0%	7	29.2%
AUDITORS OFFICE ST	10	4	40.0%	2	50.0%
TACOMA SD 010	38	15	39.5%	0	0.0%
SHORELINE SD 412	50	19	38.0%	12	63.2%
CLOVER PARK SD 400	45	17	37.8%	5	29.4%
INFORMATION SERVICES DEPT OF	13	5	38.5%	5	100.0%
CORRECTIONS MCNEIL ISLAND CORR	8	3	37.5%	3	100.0%
RENTON SD 403	8	3	37.5%	1	33.3%
MONTESANO SD 066	8	3	37.5%	0	0.0%
SEATTLE SD 001	225	80	35.6%	35	43.8%
EVERGREEN SD 114	58	21	36.2%	4	19.0%
MOSES LAKE SD 161	14	5	35.7%	2	40.0%
PENINSULA SD 401	14	5	35.7%	2	40.0%
TUMWATER SD 033	14	5	35.7%	0	0.0%
AGRICULTURE DEPT OF	11	4	36.4%	1	25.0%
KENT SD 415	79	28	35.4%	10	35.7%
CENTRAL KITSAP SD 401	23	8	34.8%	2	25.0%
VANCOUVER SD 037	62	21	33.9%	5	23.8%
MARYSVILLE SD 025	35	12	34.3%	4	33.3%
S KITSAP SD 402	24	8	33.3%	4	50.0%
CORRECTIONS WA STATE REFORMATO	18	6	33.3%	2	33.3%
WESTERN WA UNIVERSITY	15	5	33.3%	0	0.0%
LONGVIEW SD 122	12	4	33.3%	1	25.0%
YAKIMA CO	9	3	33.3%	2	66.7%
MOUNT ADAMS SD 209	9	3	33.3%	2	66.7%
BELLEVUE COMMUNITY COLLEGE	6	2	33.3%	0	0.0%
EVERETT PORT OF	6	2	33.3%	1	50.0%
OAK HARBOR SD 201	6	2	33.3%	0	0.0%
MOSES LAKE SD 161	6	2	33.3%	1	50.0%
WALLA WALLA SD 140	6	2	33.3%	0	0.0%
CASTLE ROCK SD 401	6	2	33.3%	1	50.0%
PASCO SD 001	19	6	31.6%	1	16.7%
AUBURN SD 408	45	14	31.1%	10	71.4%
LONGVIEW SD 122	32	10	31.3%	4	40.0%
SPOKANE PUBLIC SCHOOLS	91	27	29.7%	3	11.1%
ARLINGTON SD 016	10	3	30.0%	1	33.3%
BETHEL SD 403	35	10	28.6%	0	0.0%
EVERETT SD 002	35	10	28.6%	5	50.0%
CHENEY SD 360	21	6	28.6%	0	0.0%
COMMUNITY COLLEGE OF SPOKANE	14	4	28.6%	0	0.0%
RENTON CITY OF	7	2	28.6%	1	50.0%
HOQUIAM SD 028	7	2	28.6%	1	50.0%
WHITE PASS SD 303	7	2	28.6%	1	50.0%
SNOHOMISH SD 201	22	6	27.3%	0	0.0%
GRANT CO PUD 02	15	4	26.7%	2	50.0%
SHORELINE SD 412	11	3	27.3%	0	0.0%
OTHELLO SD 147	11	3	27.3%	2	66.7%
EPHRATA SD 165	11	3	27.3%	0	0.0%

Appendix B

Continued

DEPARTMENT NAME	Retirees	Rehires Number	Rehires Percent	Over limit Number	Over limit Percent
MOUNT BAKER SD 507	11	3	27.3%	1	33.3%
OLYMPIA SD 111	42	11	26.2%	9	81.8%
ENERGY NORTHWEST	23	6	26.1%	5	83.3%
YAKIMA SD 007	48	12	25.0%	6	50.0%
ECOLOGY DEPT OF	20	5	25.0%	2	40.0%
ATTORNEY GENERAL	16	4	25.0%	2	50.0%
CORRECTIONS WA STATE PENITENTI	16	4	25.0%	2	50.0%
ABERDEEN SD 005	16	4	25.0%	0	0.0%
EASTERN WA UNIVERSITY	8	2	25.0%	0	0.0%
ADMINISTRATIVE OFFICE OF THE C	8	2	25.0%	0	0.0%
HIGHLINE SD 401	8	2	25.0%	1	50.0%
MEDICAL LAKE SD 326	8	2	25.0%	0	0.0%
RICHLAND SD 400	25	6	24.0%	5	83.3%
SUMNER SD 320	22	5	22.7%	1	20.0%
LAKE WASHINGTON SD 414	13	3	23.1%	0	0.0%
CENTRALIA SD 401	18	4	22.2%	2	50.0%
LEWIS CO	9	2	22.2%	1	50.0%
BELLEVUE CITY OF	9	2	22.2%	1	50.0%
EVERETT CITY OF	9	2	22.2%	1	50.0%
EVERGREEN SD 114	9	2	22.2%	0	0.0%
CENTRAL KITSAP SD 401	9	2	22.2%	0	0.0%
KC METRO	70	15	21.4%	1	6.7%
PIERCE CO	14	3	21.4%	1	33.3%
TRS Employers	2,451	1,073	43.8%	428	39.9%
PERS Employers	531	172	32.4%	45	26.2%
Total	2,982	1,245	41.8%	473	38.0%

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Appendix C

Governor's Veto Message for SHB 1829

"I am returning herewith, without my approval as to sections 1 and 2, Substitute House Bill No. 1829 entitled:

"AN ACT Relating to post-retirement employment in the public employees' retirement system and the teachers' retirement system;"

This bill would impose new standards and procedures for rehiring members of the Teachers Retirement System and the Public Employees Retirement System who have retired from public employment.

I initially proposed the retire-rehire legislation in 2001 to address the shortage of qualified teachers and school administrators. Prior to this law, the Teachers Retirement System penalized experienced teachers by limiting them to 30 years of retirement service credit, even if they taught longer than that.

Section 1 would make it a felony for a member of the Teachers Retirement System to enter into an oral or written agreement to resume employment after retirement. While I appreciate the intent of the Legislature to prohibit employees and employers from entering into private handshake deals, the penalty in this section is significantly more severe than the penalty for similar acts committed by members of the Public Employees Retirement System. Therefore, I am vetoing section 1.

Section 2 would provide new standards and procedures for the future employment of retirees within the public school system. I strongly support those accountability provisions. However, section 2 would also place an artificial "lifetime limit" on the number of hours that a retired member of the system could work after being rehired, and would make that limit retroactive. The retroactive lifetime limit will place an unreasonable recruitment burden on school districts facing significant shortages of qualified teachers and principals. We must protect the ability of school districts to provide for the education of our children, and trust their locally elected school boards to properly administer the retire-rehire law. Therefore, I am vetoing section 2.

While I am not vetoing Section 4, which would make it a gross misdemeanor for a member of the Public Employees Retirement System to enter into an oral or written agreement to resume employment after retirement, I am concerned that the language of the section is flawed and therefore almost impossible to prosecute under. I believe the Legislature should consider legislation to perfect the language to make the elements of the crime clear and to place the language into RCW 41.40.055, which is the section dealing with pension fraud for this retirement system.

For these reasons, I have vetoed sections 1 and 2 of Substitute House Bill No. 1829.

With the exception of sections 1 and 2, Substitute House Bill No. 1829 is approved."

Appendix D

Washington State
Health Care Authority

P.O. Box 42710 • Olympia, Washington 98504-2710
FAX 360-923-2766 • TTY 360-923-2701 • www.hca.wa.gov

October 20, 2003

TO: Representative Steve Conway, Chair, Select Committee on Pension Policy
Senator Shirley Winsley, Vice Chair, Select Committee on Pension Policy
Members, Select Committee on Pension Policy

FROM: Richard Onizuka, Director of Health Care Policy, Health Care Authority

SUBJECT: **Impacts of post-retirement employment provisions in Chapter 10, Laws of 2001, 2nd special session, on the Public Employees Benefits Board (PEBB) program**

Background

During the 2001 legislative session, the Health Care Authority (HCA) submitted a fiscal note on ESSB 5937 that projected a 2003-05 biennial savings of $294,000. This estimate was based on an assumed decrease of one-half to one percent in the number of non-Medicare retirees in the PEBB state active and non-Medicare retiree risk pool due to re-employment of K-12 school district retirees. Since most school districts purchase benefits for their active employees outside of the PEBB program, re-employment of K-12 retirees into positions where district benefits were available would result in fewer non-Medicare retirees in the PEBB risk pool. Non-Medicare retirees are in the same insurance rate pool as state and higher education active employees, so post-retirement employment of state and higher education employees re-hired by their employers was not expected to significantly impact the risk pool.

Public Employees Benefits Board rules currently provide retirees with two options upon retirement:

1. Enroll in a PEBB medical plan; or
2. Defer enrollment in PEBB plans if the retiree is covered through his own re-employment or the employment of a spouse or same-sex domestic partner.

These options have been available for retirees who were re-employed by state or K-12 employers since 1996 and for retirees re-employed by other employers since 2001. If the retiree does not select option 1 or 2, he or she forfeits eligibility for PEBB retiree coverage.

The Health Care Authority requires retirees to complete a form indicating their enrollment or deferral. HCA also requires retirees to provide proof of continuous coverage upon application for re-enrollment.

The premium rate paid by non-Medicare retirees is subsidized by their inclusion in the same risk pool as active state and higher education employees. Since the rate is established on a younger and generally healthier risk pool, our actuaries estimate non-Medicare retirees receive an implicit subsidy of approximately $200 per month in CY 03. This is the estimated value of the difference between what it costs a retiree to buy PEBB's benefit package and what it would cost to purchase the coverage through other insurance.

Analysis

PEBB non-Medicare retiree enrollment has dropped from 10,894 subscribers in June 2001 to 10,209 in June 2003. This is an enrollment reduction of approximately 6 percent. This compares to a prior annual trend of enrollment increases in non-Medicare retiree enrollment from 3,280 in 1992 to 10,894 in 2001.

Figure 2 on page 5 of the *Preliminary Post-Retirement Employment Report* shows an extra 442 TRS 1 retirements for 2001 and *figure 5* on page 13 of the report shows that most of the rehires were TRS members. The combination of this information with the PEBB retiree enrollment data suggests that a substantial portion of the decrease is related to re-employments and the passage of Chapter 10, Laws of 2001, 2nd special session. This is consistent with our fiscal analysis of ESSB 5937.

However, we cannot document with clarity the extent this decrease is related to the passage of the legislation. HCA currently does not have a mechanism for tracking the number of retiree deferrals or the types of re-employment (i.e., K-12 school district compared to private sector re-employment).

Thank you for the opportunity to present this information. If you have any questions, please contact me at (360) 923-2820 or Dennis Martin, HCA Director of Policy and Legislative Relations, at (360) 923-2831.

STATE OF WASHINGTON
DEPARTMENT OF RETIREMENT SYSTEMS
PO Box 48380 • Olympia WA 98504-8380 • (360) 664-7000 • Toll Free 1-800-547-6657

October 17, 2003

The Honorable Steve Conway, Chair
The Honorable Shirley Winsley, Vice Chair
Select Committee on Pension Policy
Post Office Box 40914
Olympia, Washington 98504-0914

Dear Representative Conway and Senator Winsley:

Thank you for inviting the Department of Retirement Systems (DRS) to provide the Select Committee on Pension Policy (SCPP) with program implications of the post-retirement employment provisions of Chapter 10, Laws of 2001, 2nd Special Session (ESSB 5937). The adoption and implementation of the post-retirement rules beginning in 2001 had a positive administrative impact on DRS, its customers and suppliers. These positive impacts include:

- Simplification and standardization of the post-retirement employment rules. As outlined on pages 8 and 9 of the Office of State Actuary's (OSA) *Preliminary Post-Retirement Employment Report* to the SCPP, there have been numerous return to work rules, including separate standards for Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) retirees. ESSB 5937 allowed for consistent application of rules across retirement systems, which resulted in improved communications to members and retirees. This also allowed for the implementation of simplified administrative rules for employers.

- Improved accuracy and timeliness of data. In order to provide timely customer service and administer the distinct benefit plans, DRS must rely on data provided by the approximately 1,300 employers who participate in the pension plans. The new rules standardized the reporting requirements for PERS and TRS, thus reducing employer reporting complexity. The standardized rules resulted in improved timeliness and accuracy of DRS' post-retirement data.

- Electronic collection of data. Prior to the adoption of the post-retirement provision in 2001, all retiree return to work data was collected manually from employers and was hand-keyed into DRS systems. Coordination with employers, combined with funding provided by the legislature, allowed DRS to improve the accuracy of the return to work data by automating those manual data collection processes.

- <u>Electronic management of benefits</u>. DRS electronic benefit and disbursement systems are managed utilizing a series of rule tables. The creation of consistent standards allowed DRS to modify and develop new tables that could more efficiently manage the benefit processes. These modifications, combined with the changes to electronically collect and store retiree data, allowed DRS to automatically monitor retiree hours against the maximum post-retirement limits.

The 2001 changes to post-retirement employment also required DRS to alter customer communications, systems and processes. The 2003 post-retirement changes modified these same communications and processes and created new requirements including:

- Monitoring the length of separation from service in order to qualify for separate and distinct post-retirement hourly limits.
- Monitoring of cumulative lifetime hourly limits including retroactive review of retiree hours back to 2001.
- Cessation of benefits based on separation from service and reaching specified hourly limits.
- New automated communications for retirees approaching the 867 and 1,500 hourly limits.
- New annual notification of hours applied against the cumulative 1,900 post-retirement limit.

Included with this letter is the detailed documentation of the administrative impacts outlined in summary above. I want to thank you again for providing DRS with the opportunity to present this information. Please feel free to contact me if you have any questions.

Sincerely,

John F. Charles
Director

Enclosure

cc: Matt Smith, State Actuary

Department of Retirement Systems
Post-Retirement Employment
Administrative Accomplishments

The adoption of the 2001 and 2003 post-retirement employment laws provided the Department of Retirement Systems (DRS) the opportunity to achieve specific administrative goals. Listed below are the specific goals, objectives and accomplishments implemented by DRS.

- **Goal**
  Increase member and retiree awareness and understanding of the post-retirement employment provisions.

  Objective
  Develop clear and concise publications and deliver to all DRS customers and suppliers.

  Current Status
  In 2001 and 2003, DRS communicated the new/revised post-retirement employment provisions to over 260,000 active members and 100,000 retirees. This was accomplished through the direct mailing of the *Retirement Outlook* newsletter to current retirees and a mailing to employers for active members. DRS also coordinated communication strategies with the Office of the Superintendent of Public Instruction (OSPI), Department of Personnel (DOP) and Health Care Authority (HCA), which resulted in consistent post-retirement employment information being available on each agency's Internet site.

  In 2001, approximately 1,300 DRS employers received updated versions of the *Thinking About Working After Retirement* brochures for delivery to active members. DRS is in the process of revising this brochure to reflect the 2003 post-retirement employment changes.

  All publications are available through DRS' Internet site, including an updated version of the PERS and TRS Member Handbooks. This information has been updated to reflect the most current changes.

- **Goal**
  Increase DRS' capability to maintain accurate retirement information for public employees.

  Objective
  Automate paper-based benefit processes in order to provide timely service to customers.

  Current Status
  Prior to 2001, managing post-retirement benefits was primarily a manual process for DRS. This included the collection of data from employers (see Goal #3 below), tracking of post-retirement limits, suspension of benefits and communications to retirees. In 2001, DRS modified its systems to receive, process and store retiree employment information, hours and compensation electronically. Benefit systems were modified to track the appropriate 867 or 1,500-hour limits and identify retirees exceeding these limits who required suspension of benefits. New systems were developed to automatically restart benefits again at the beginning of a new calendar year. At the same time, customized letters were developed to notify members that they are approaching the hourly limits.

DRS is currently working on modifying its benefits systems to comply with the 2003 post-retirement changes. This includes modifications to identify and track hourly limits for each retiree returning to work (retiree eligible to work 867 hours or 1,500 hours), based on the length of time between retirement and reemployment (either 30 or 90 days). In addition, new systems are being developed to track hours that count toward the new cumulative 1,900-hour limit and provide an annual notification to members of the number of hours applied to the cumulative limit. This notification will assist retirees with the management of their benefit and understanding of the post-retirement provisions.

Customized letters created in 2001 will be modified so that they are electronically produced when a retiree is approaching their hourly limit. In addition, a simultaneous e-mail will be developed to notify employers.

- **Goal**
  Increase the accuracy of retiree employment data.

  Objective
  Implement electronic processes to collect retiree employment data from DRS employers.

  Current Status
  DRS relies on data provided by the approximately 1,300 employers who participate in the pension plans. Prior to the adoption of the post-retirement provision, all retiree return to work data was collected manually from employers and hand-keyed into DRS systems. Work with employer stakeholders, combined with funding provided by the legislature, allowed DRS to improve the accuracy of the return to work data by automating those manual data collection processes. Accomplishing this goal required the development and publication of new technical and procedural reporting requirements, which includes information regarding unemployment insurance impacts. The DRS Employer Handbook was also updated for distribution to employers.

  Automating data received from employers provided DRS with the opportunity to enhance the reporting of retiree information to the Office of the State Actuary (OSA). In July 2001, DRS and OSA worked together to identify the data required for actuarial purposes. These requirements were included in the information communicated to DRS employers.

SUPERINTENDENT OF PUBLIC INSTRUCTION

DR. TERRY BERGESON OLD CAPITOL BUILDING • PO BOX 47200 • OLYMPIA WA 98504-7200 • http://www.k12.wa.us

October 21, 2003

The Honorable Steve Conway
Chair, Select Committee on Pension Policy
2420 Bristol Court S.W., Suite 101
Olympia, WA 98504-0914

The Honorable Shirley Winsley
Vice Chair, Select Committee on Pension Policy
2420 Bristol Court S.W., Suite 101
Olympia, WA 98504-0914

Dear Representative Conway and Senator Winsley,

I would like to thank you for your invitation to speak to the Select Committee on Pension Policy (SCPP) regarding the impact of the post-retirement employment provisions of state law. I apologize that I am unable to attend your meeting but wanted to share with you my views on this issue.

When the Legislature acted in 2001 to change the provisions of Washington state pension law, one of the concerns brought to the Legislature was the staff shortage(s) in several school districts. As the data included in the September 2003 State Actuary's report indicate, several school districts have been able to utilize the so called retire-rehire provisions of state law to retain veteran, experienced educators, administrators and other school staff—to the benefit of our students. Most notably, numerous school districts within the Puget Sound region, probably the highest cost region in the state, are leveraging the retire-rehire law. This is an area of the state where districts have repeatedly indicated they have difficulty finding qualified employees.

In the State Actuary's report he indicates that the 2001 provisions of the retire-rehire law have resulted in increased costs for the TRS 1 system. However, the report goes on to discuss that the exact cost to the TRS system "...is not easily measurable with a high degree of accuracy or confidence." I understand the State Actuary will prepare a final report that will include fiscal and policy recommendations regarding the impact(s) of the 2001 retire-rehire legislation.

Your committee is charged with proposing changes, if necessary, to employer contributions based upon the recommendations of the State Actuary. As the SCPP considers these recommendations, I hope you will keep in mind that the district staffing issues the retire-rehire legislation was designed to address have not abated. Thus, without the ability to rehire highly qualified veteran educators, administrators, and other school staff our districts would find themselves struggling to find the same calibre of employees for their hard to fill positions.

As you move forward with your task to examine the retire-rehire law, I encourage you to consider the findings of the State Actuary, consider the limitations of currently available data, and fully consider the benefit to our state of having our excellent veteran education professionals available to our schools.

Thank you for your consideration of my letter.

Sincerely,

Terry Bergeson
State Superintendent
of Public Instruction

STATE OF WASHINGTON

GOVERNOR'S EXECUTIVE POLICY OFFICE

100 Insurance Building, PO Box 43113 • Olympia, Washington 98504-3113 • (360) 902-0666

October 21, 2003

Mr. Chairman and members of the committee, thank you for the opportunity to speak to you about the postretirement employment program. I am Chris Rose, from the Governor's Executive Policy Office.

This program, often called the 'retire-rehire' program, has given schools an additional tool to bring experienced teachers back into classrooms. It has also given agencies a way to bring employees with hard to find skills back into public service in Washington. We are glad that the Legislature took this step to increase management flexibility and to improve our state's ability to keep expertise available to our schools and to state and local governments.

There are two things that make this program so important. The first of these is that, despite a soft economy, Washington's schools and agencies need experienced staff. While some jobs attract many applicants, there are others that remain hard to fill, notably in technical or specialized areas. In these positions especially, we need and value the expertise of our more experienced workers. When they leave our workforce we lose skills and continuity.

The second important factor is that prior to the expanded retire-rehire provisions, PERS and TRS Plan 1 retirees already had the ability to retire and then accept employment in another state or even within the state in a job not covered by their pension. Making them forfeit their pension to return to work in covered employment just encouraged them to look for work elsewhere. The retire-rehire program helps discourage highly skilled retirees from searching for postretirement employment in other states or outside government service

This program gives us an opportunity to compete on a more even basis for the most skilled of our retirees.

We recommend the Committee wait for additional data to estimate the cost of the program. Particularly with the changes to the PERS 1 system made last session, it is too soon to know just what impact the program might have on pension system costs.

These changes, you remember, include a longer break between retirement and reemployment (3 months), tighter hiring requirements (chief executive officer approval, using established hiring processes, and with a documented need) and a lifetime maximum of 1900 hours of work beyond the 867 hours per year that was previously permitted. These changes seem likely to discourage those who are eligible for retirement from making a decision to retire purely based on the availability of postretirement employment in a covered position.

The program is providing a welcome managerial tool and a means to better manage our need for seasoned teachers and employees.

Thank you.

STATE OF WASHINGTON
DEPARTMENT OF PERSONNEL
521 Capitol Way South, P.O. Box 47500 • Olympia, Washington 98504-7500 • (360) 664-1960 • FAX (360) 586-4694

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The State Actuary

November 6, 2003

The Honorable Steve Conway, Chair
The Honorable Shirley Winsley, Vice Chair
Select Committee on Pension Policy
2420 Bristol Court SW, Suite 101
P.O. Box 40914
Olympia, Washington 98504-0914

Dear Representative Conway and Senator Winsley:

Thank you for the opportunity to comment on the Select Committee on Pension Policy's recent report on post-retirement employment provisions. It appears there was some confusion as to our agency's representation at your last meeting and we hope this letter will clarify our input.

The Department of Personnel primarily provides human resource assistance relating to classified employees in state agencies and institutions of higher education. The vast majority of those employees are in the Public Employees' Retirement System.

We are very supportive of giving state managers the flexibility to hire the right person for the right job, including the ability to hire retirees appropriately. The utilization of post-retirement employment since the mid-1960s has been an advantage to managers in meeting agency missions.

Administrative support for implementing the last several changes to the post-retirement employment statutes has not represented a significant draw on our agency's resources.

If you would like any additional information or have questions, staff will be available at your November 18 meeting.

Sincerely,

Gene Matt

Gene Matt
Director

Projected Rates and Funding

Background

On October 21, 2003, the Select Committee on Pension Policy had a work session on projected rates and funding in the state retirement systems. The committee was briefed on the results of the most recent actuarial valuation report. Staff also briefed the committee on the magnitude of projected contribution rate increases.

Committee Activity

Presentation:
October 21, 2003, Full Committee Meeting

Recommendation to Legislature

None

Staff Contact

Matthew M. Smith – 753-9144 – smith_ma@leg.wa.gov

Projected Rates and Funding

Matthew M. Smith
State Actuary

October 21, 2003

Actuarial Valuation?

- Comparison of plan assets and liabilities at the valuation date
- Closed group of participants
- Primary purpose is to determine contribution rates

State's Funding Policy

- Provide a dependable and systematic process for funding benefits
- Continue to fully fund plans 2/3 and WSP
- Fully amortize plan 1 UAL by 6/30/2024
- Establish predictable and stable rates
- Fund benefit increases over working lives of the members who receive the benefit

Funding Cycle

- Odd-year valuations are used for rate setting purposes
- Rates adopted by Pension Funding Council (PFC)
- PFC solicits and administers actuarial audit of the valuation results
- PFC submits results to SCPP for study and recommendations prior to adoption

Contribution Rates

- PFC adopts “basic rates” for the biennium subject to legislative modification
- “Supplemental rate” is added to the basic rate for subsequent benefit increases
- State Actuary calculates the supplemental rate increase

Actuarial Valuation

- Valuation models the:
  - Amount
  - Timing
  - Form; and
  - Length of future benefit payments
- For each plan participant (active or retired)

Actuarial Valuation

- Amount of benefit is estimated by applying economic assumptions:
  - Salary increases
  - Inflation

Actuarial Valuation

- Timing of benefit is estimated by applying demographic assumptions:
  - Rates of retirement
  - Rates of withdrawal
  - Rates of mortality and disability

Actuarial Valuation

- Form of benefit is estimated based on plan provisions and demographic experience
- Length of benefit payout is estimated based on mortality assumptions

Present Value?

- Valuation model reflects the “time value of money” since benefits are paid in the future
- Present value is the total amount that a series of future payments is worth now
- Present value based on an 8% interest rate assumption
- Interest assumption produces annual gains and losses that offset over time

Actuarial Liabilities - Types

- Accrued liabilities
  - Based on salary and service amounts accrued at the valuation date
- Credited projected liabilities
  - Based on projected salary but accrued service
- Fully projected liabilities
  - Based on projected salary and service

Assets

- Market value of assets
- Actuarial (or smoothed) value of assets
- Why both?

Actuarial Value of Assets

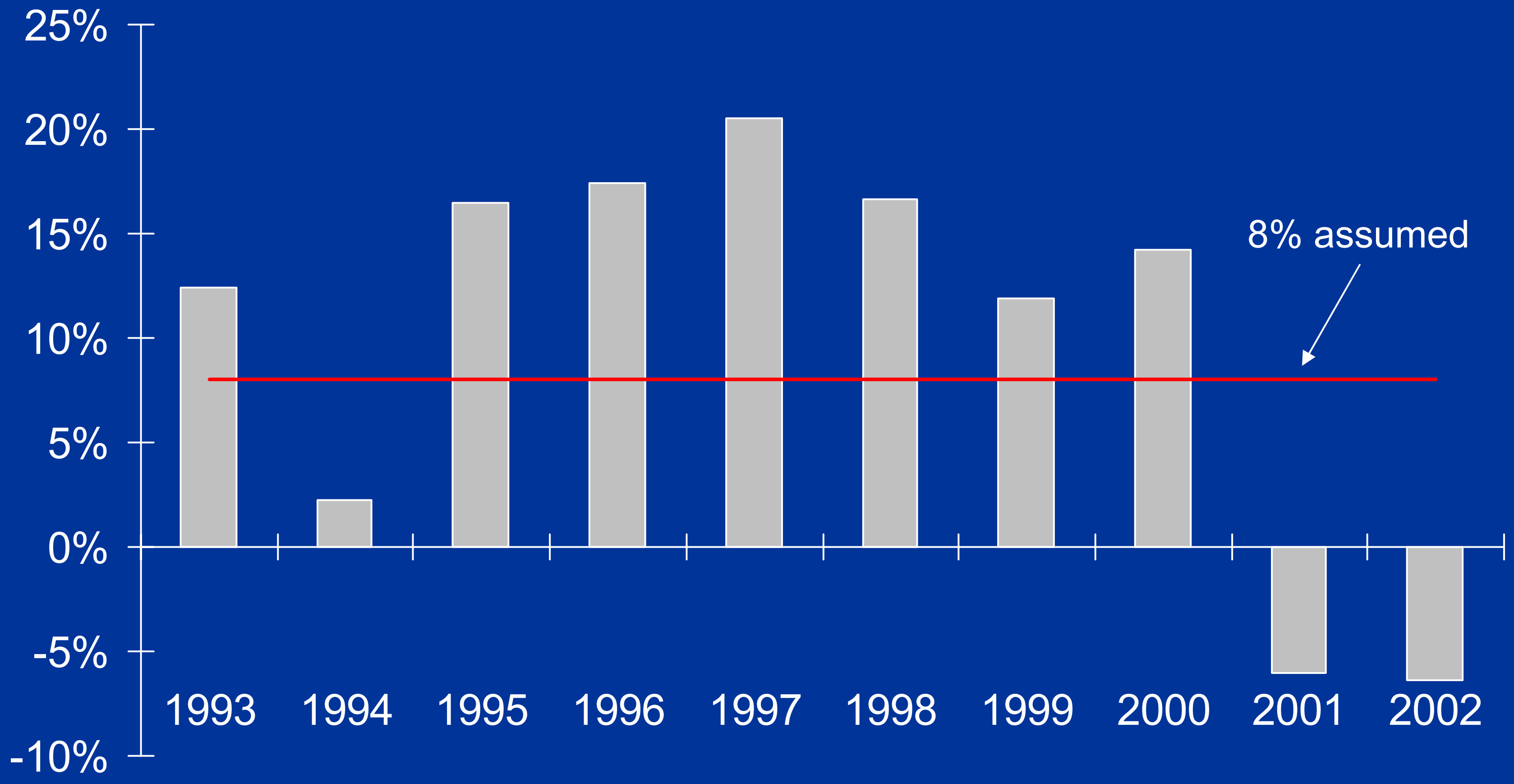
- It is common for actuaries to select an asset method that smoothes the effects of short-term volatility in the market value of assets
- The volatility will depend, in part, on the plan’s asset allocation

Asset Allocation

- State Investment Board (SIB) target:
  - 75% total equity
  - 25% fixed income
- Total equity target:
  - 31% US equity
  - 15% non-US equity
  - 12% real estate
  - 17% private equity

Asset Performance

Fiscal years ending 6/93 – 6/02



Source: SIB 2002 annual report

Actuarial Funding Method

- Bringing actuarial liability and assets together
- Large public pension fund in search of well diversified trust fund willing to make a long-term commitment
- The funding method defines the relationship between assets and liabilities

Aggregate Funding Method

- Method used in plans 2/3 and WSP
- Contribution rate is the unfunded present value of future benefits spread over the future salary of current active members
- Accrued liability = assets
- No unfunded accrued liability exists under this method

Plan 1 Funding Method

- Past service benefits and under funding created an unfunded accrued liability (UAL) in PERS 1 and TRS 1
- UAL will be amortized by 6/30/2024 as a level percentage of projected system payroll
- Projected payroll includes growth for new entrants

Results of 2002 Valuation

- Significant factors that impacted the results:
  - Change in asset valuation method
  - Actual investment return for plan year well below 8% assumption
  - New entrants currently exert modest upward adjustment on rates
  - Salary gains and losses

Contribution Rates

Contribution Rates				
	Plan 1		Plan 2/3	
	2002	2001	2002	2001
PERS				
Member*	6.00%	6.00%	2.63%	1.41%
Total Employer	3.78%	2.05%	3.78%	2.05%
TRS				
Member*	6.00%	6.00%	1.71%	1.20%
Total Employer	3.19%	2.22%	3.19%	2.22%
SERS				
Member*	N/A	N/A	2.49%	1.10%
Total Employer	N/A	N/A	3.64%	1.74%
LEOFF				
Member	0.00%	0.00%	6.41%	5.05%
Employer	0.00%	0.00%	3.84%	3.03%
Total State	0.00%	0.00%	2.57%	2.02%
WSP				
Member	2.00%	2.00%	N/A	N/A
Employer (State)	0.00%	0.00%	N/A	N/A

**Plan 3 members do not contribute to the defined benefit plan*

Actuarial Liabilities

Actuarial Liabilities		
(Dollars in millions)	**2002**	**2001**
All Systems		
Present Value of Fully Projected Benefits	$51,126	$48,907
Unfunded Actuarial Accrued Liability*	1,222	136
Present Value of Credited Projected Benefits	37,757	35,624
Valuation Interest Rate	8.00%	8.00%

**For PERS 1, TRS 1 and LEOFF 1 at 9/30/2002*

Assets

Assets		
(Dollars in millions)	2002	2001
All Systems		
Market Value of Assets	$34,224	$38,470
Actuarial Value of Assets	44,573	45,038
Contributions*	436	761
Disbursements	2,007	2,177
Return on Assets	(6.50%)	(12.01%)

**Employee and Employer*

Funded Status

Funded Status		
(Dollars in millions)	2002	2001
All Systems		
a. Present Value of Credited Projected Benefits	$37,757	$35,624
b. Actuarial Value of Assets	44,573	45,038
c. Unfunded Liability (a-b)	(6,816)	(9,414)
d. Credited Projected Funded Ratio (b/a)	118%	126%

Assets from an individual qualified retirement plan may not be used to fund benefits from another plan. This table is provided for summarization purposes only.

Participant Data

Participant Data		
All Systems	**2002**	**2001**
Active Members		
Number	286,232	283,430
Total Salaries (in millions)	$12,079	$11,465
Average Annual Salary	$42,195	$40,449
Average Attained Age	44.9	44.6
Average Service	10.0	9.9
Retirees and Beneficiaries		
Number	107,581	104,339
Average Annual Benefit	$15,964	$15,224
Terminated Members		
Number Vested	28,585	26,398
Number "Non-Vested"	94,150	94,618

Key Assumptions

Key Assumptions	
All Systems	
Valuation Interest Rate	8.00%
Salary Increase	4.50%
Inflation	3.50%
Growth in Membership*	1.25%

**0.90% in TRS*

Assumptions unchanged from last valuation

System/Plan Results

- All plan's experienced a decrease in funded status
- LEOFF 1 and WSP remain in a strong funding position (as of the valuation date)
- UAL in PERS 1 and TRS 1 is re-emerging

Findings

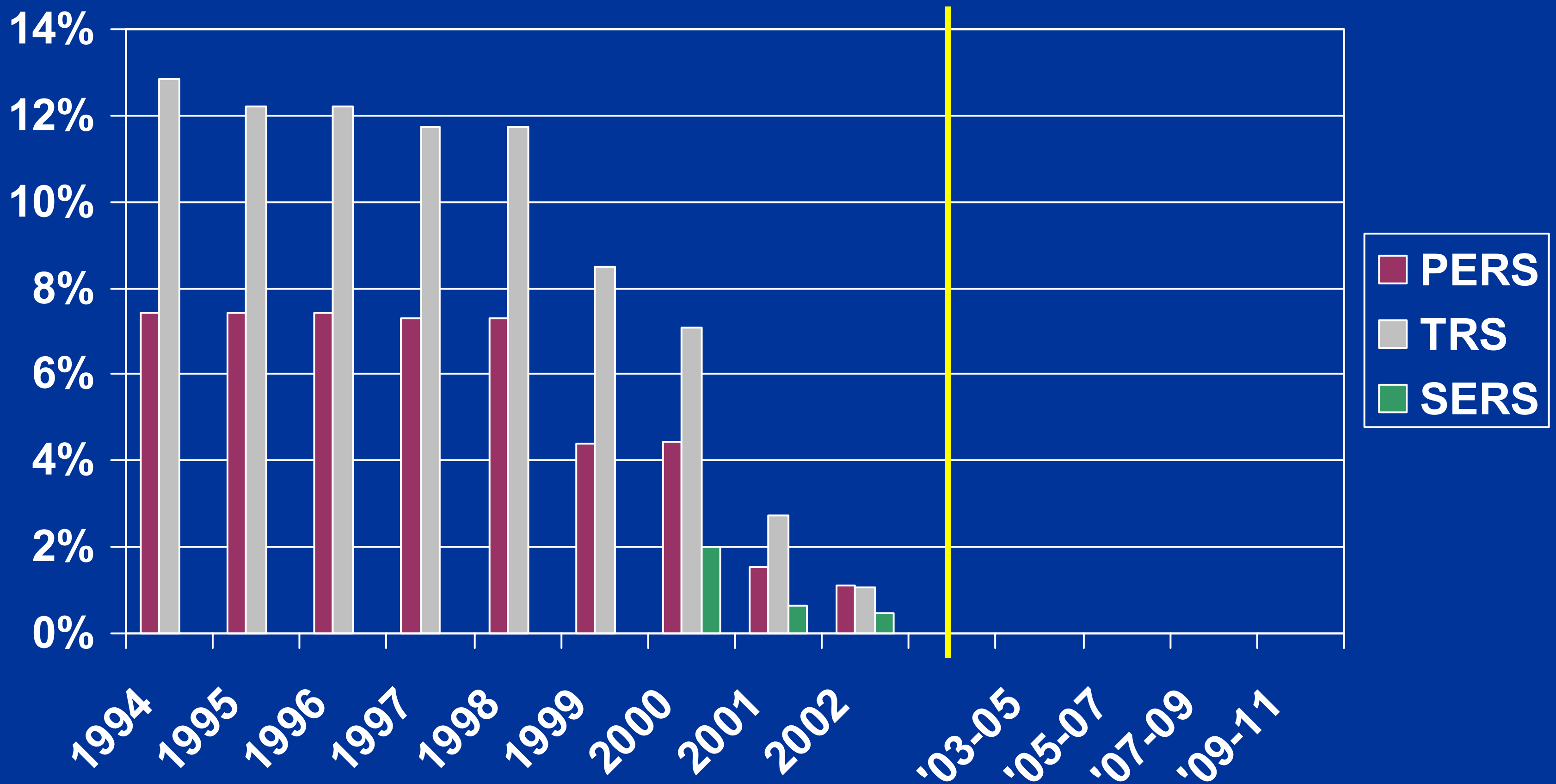
- Dollar contributions to the Plan 1 UAL will increase steadily as 6/30/2024 approaches
- May be advisable to add a market value corridor with the current asset smoothing method
- Gain-sharing benefits may represent a material liability to the plans 1 & 3 that would require prefunding

Estimated Future Rates

- On the rise!
- 14.3% estimated rate of investment return for the plan year ending 9/30/2003
- Good news, but not enough to offset significant asset losses from 2000-2002
- Asset losses from 2000-2002 not yet fully recognized
- Estimates assume 8% rate of return after 9/30/2003 (long-term assumption)

Historical Employer Rates

PERS, TRS and SERS



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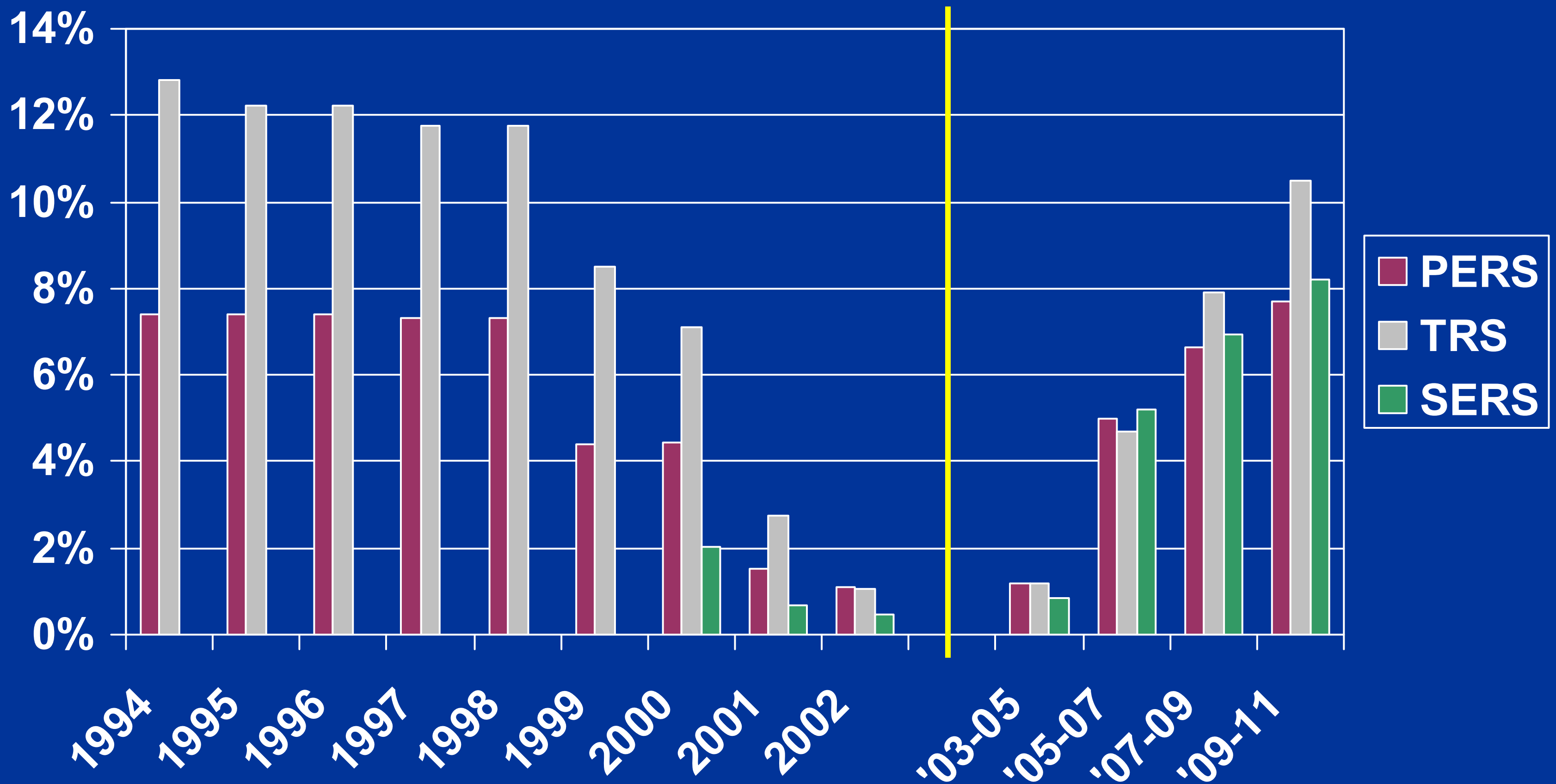
Estimated Employer Rates

PERS, TRS and SERS



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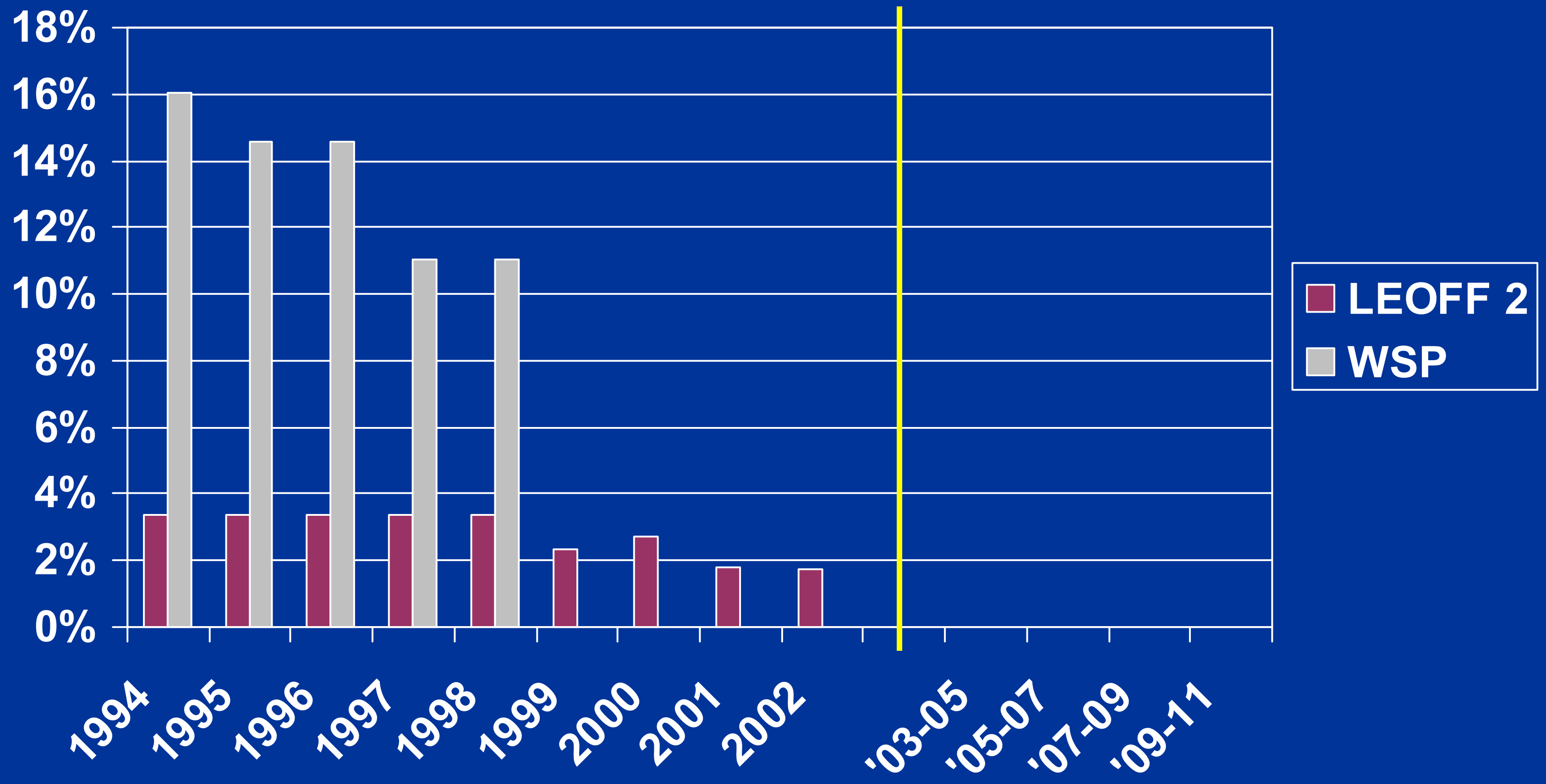
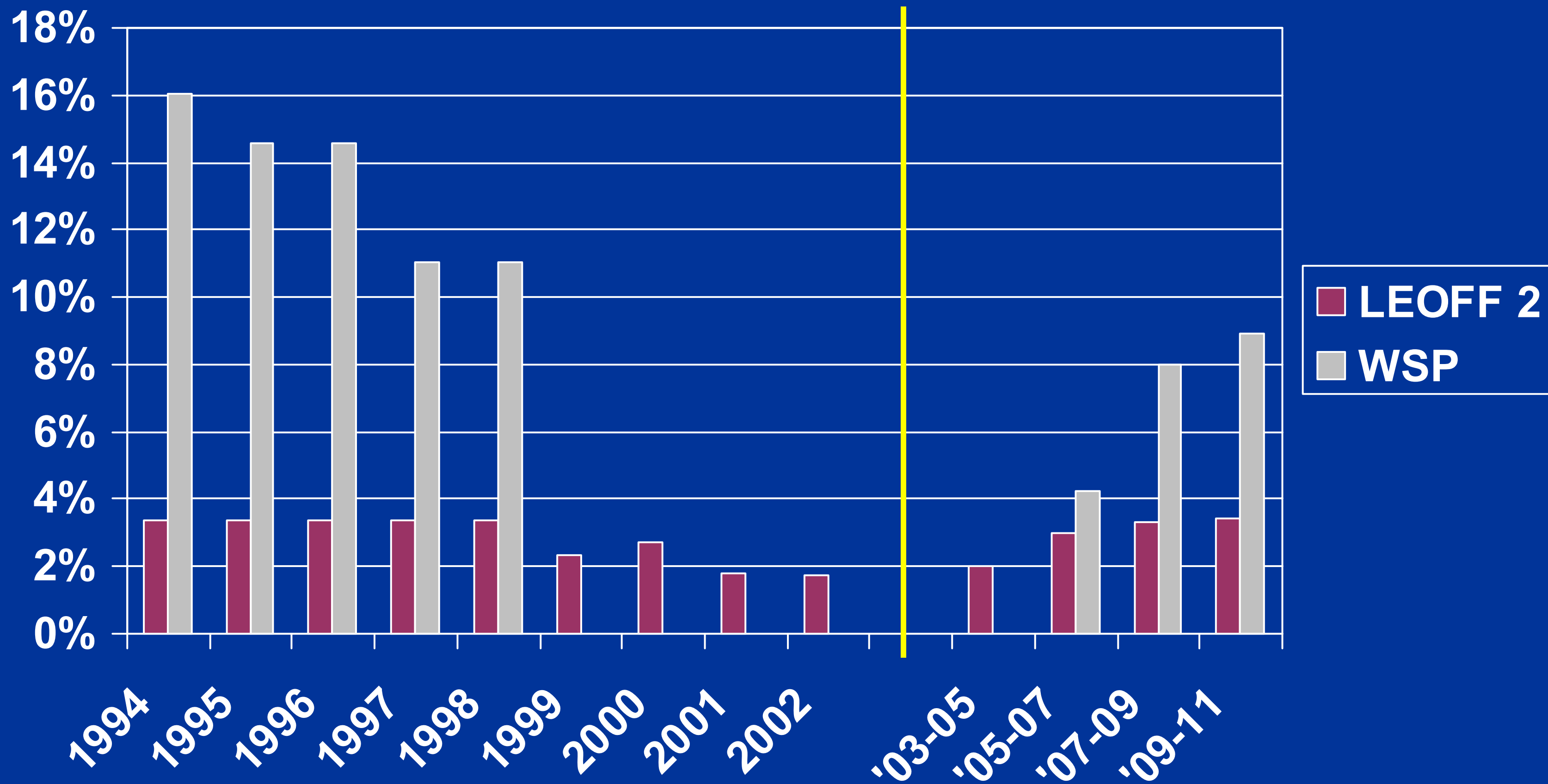
Historical State Rates

LEOFF 2 and WSP



Estimated State Rates

LEOFF 2 and WSP



* State rate for LEOFF 2. Projected rate for LEOFF 1 is 0%.

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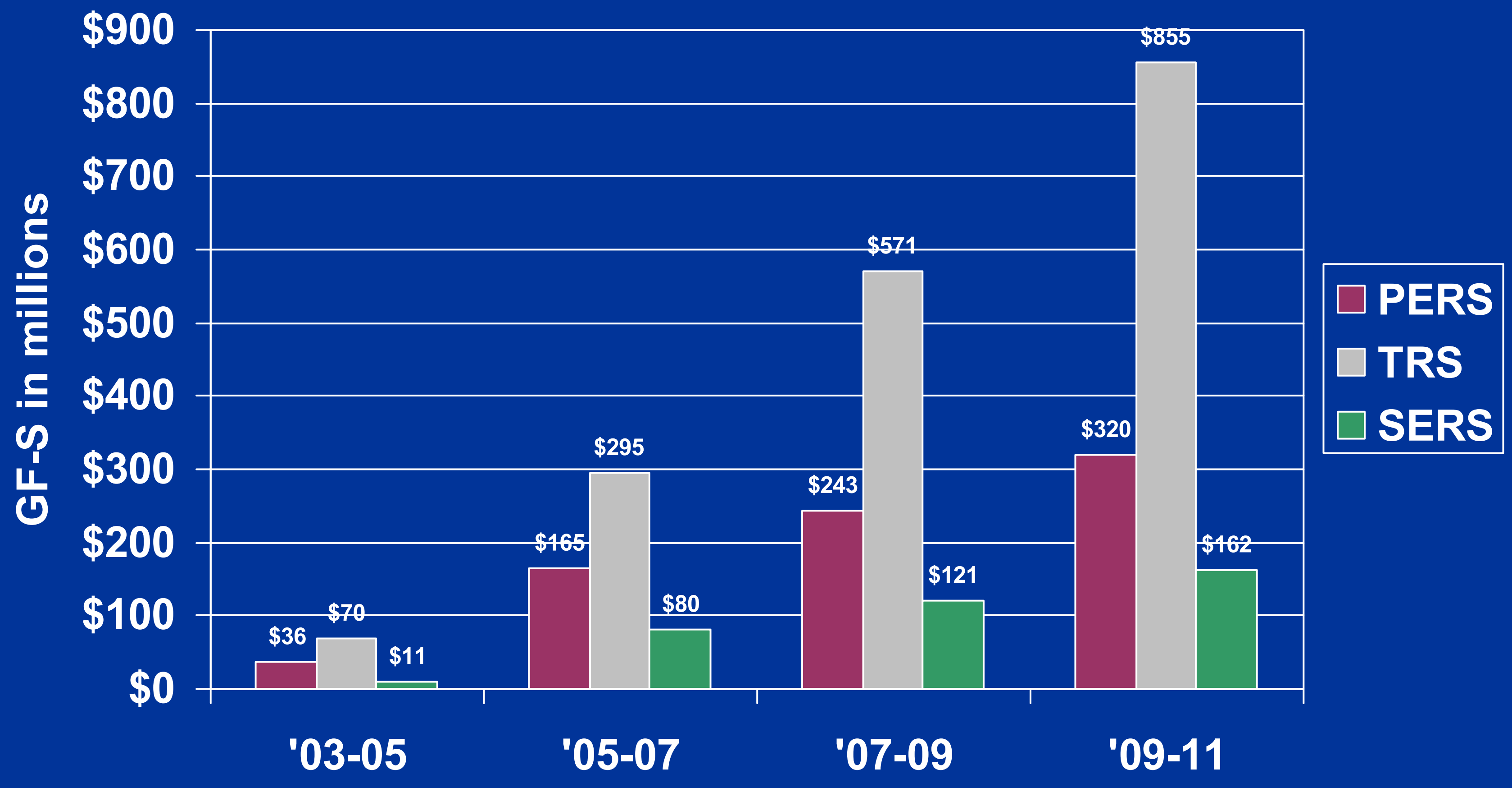
Estimated Contributions

PERS, TRS and SERS



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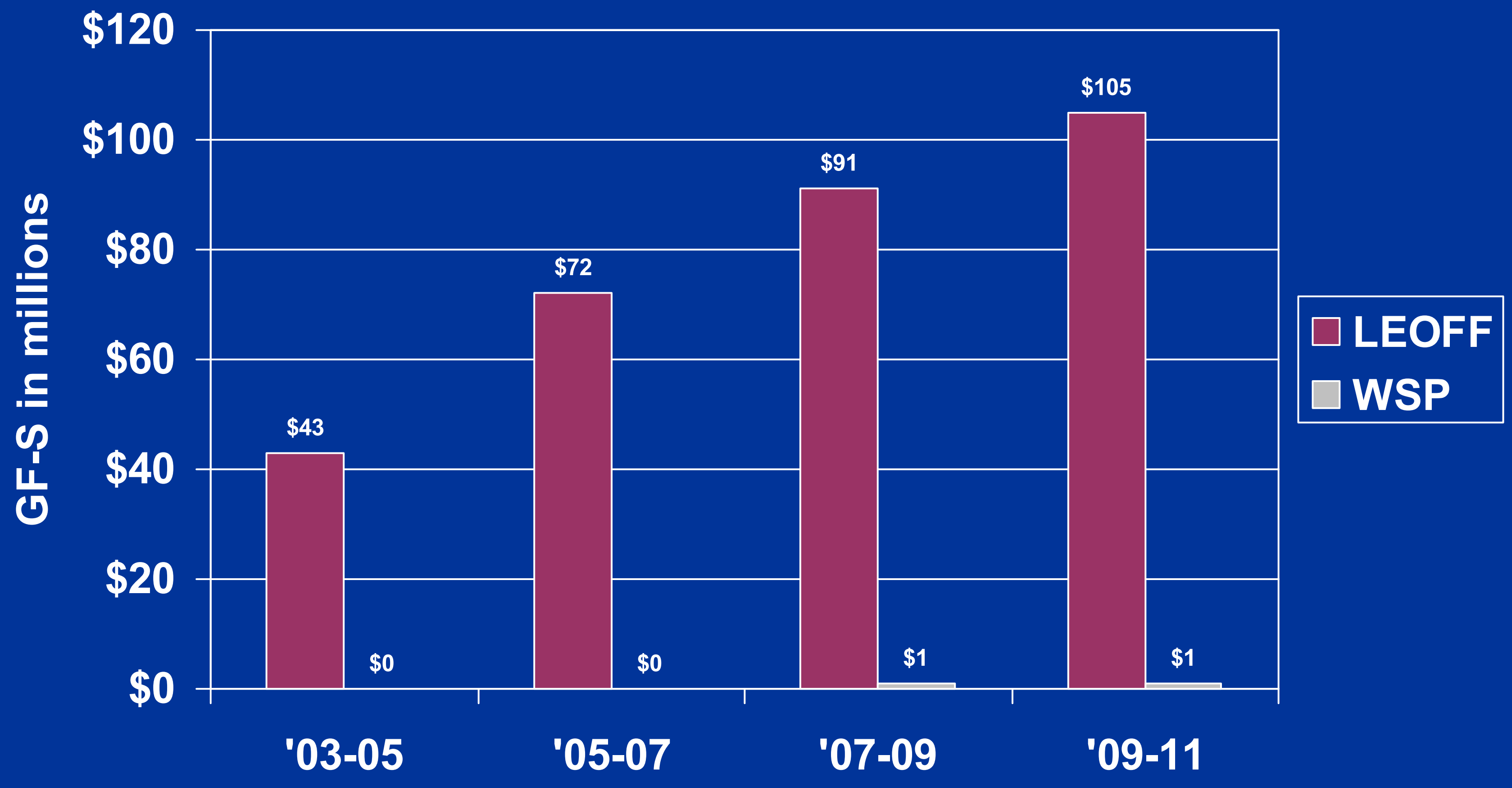
Estimated Contributions

LEOFF and WSP



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End of Presentation

Recovery of Lost Purchasing Power

Background

The various retirement systems and plans have distinct cost-of-living-adjustments (COLA) for beneficiaries. They vary from a fully indexed benefit for members of the Law Enforcement Officers and Fire Fighters plan 1, to the more recent Uniform Increase for members of the Public Employees' Retirement System plan 1 and Teachers Retirement System plan 1. These COLA provisions have a direct bearing on how the benefits of each system and plan maintain a beneficiary's purchasing power. A fully indexed benefit will offer a benefit whose purchasing power is fully maintained. A benefit that is not fully indexed will lose purchasing power when inflation is above the level of increase that the COLAs offer.

Committee Activity

Presentation:
November 18, 2003 - Full Committee Meeting

Recommendation to Legislature

None

Staff Contact

Robert Wm. Baker – 586-9237 – baker_bo@leg.wa.gov

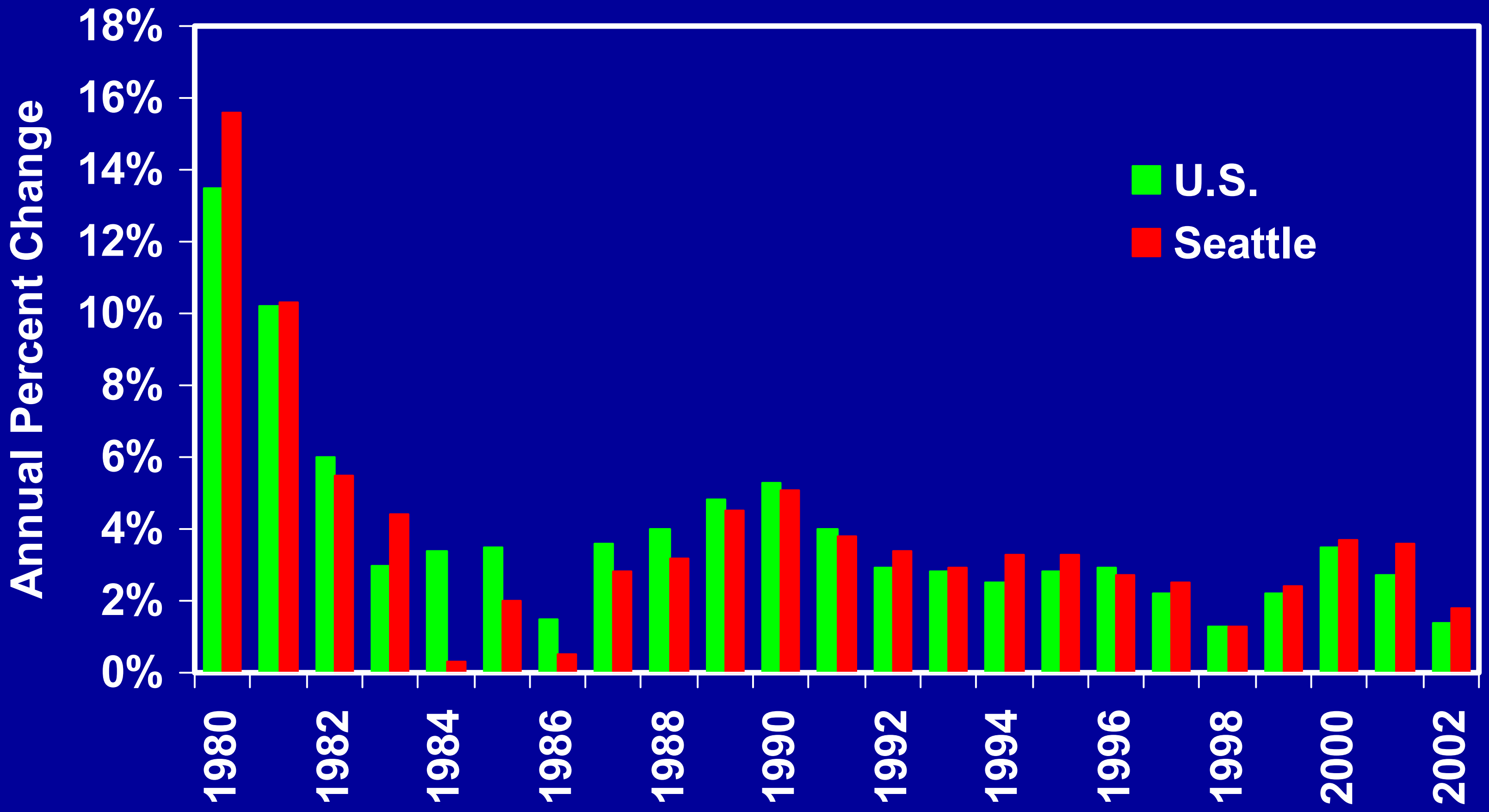
Recovery of Lost Purchasing Power

Robert Wm. Baker
Office of the State Actuary

November 18, 2003

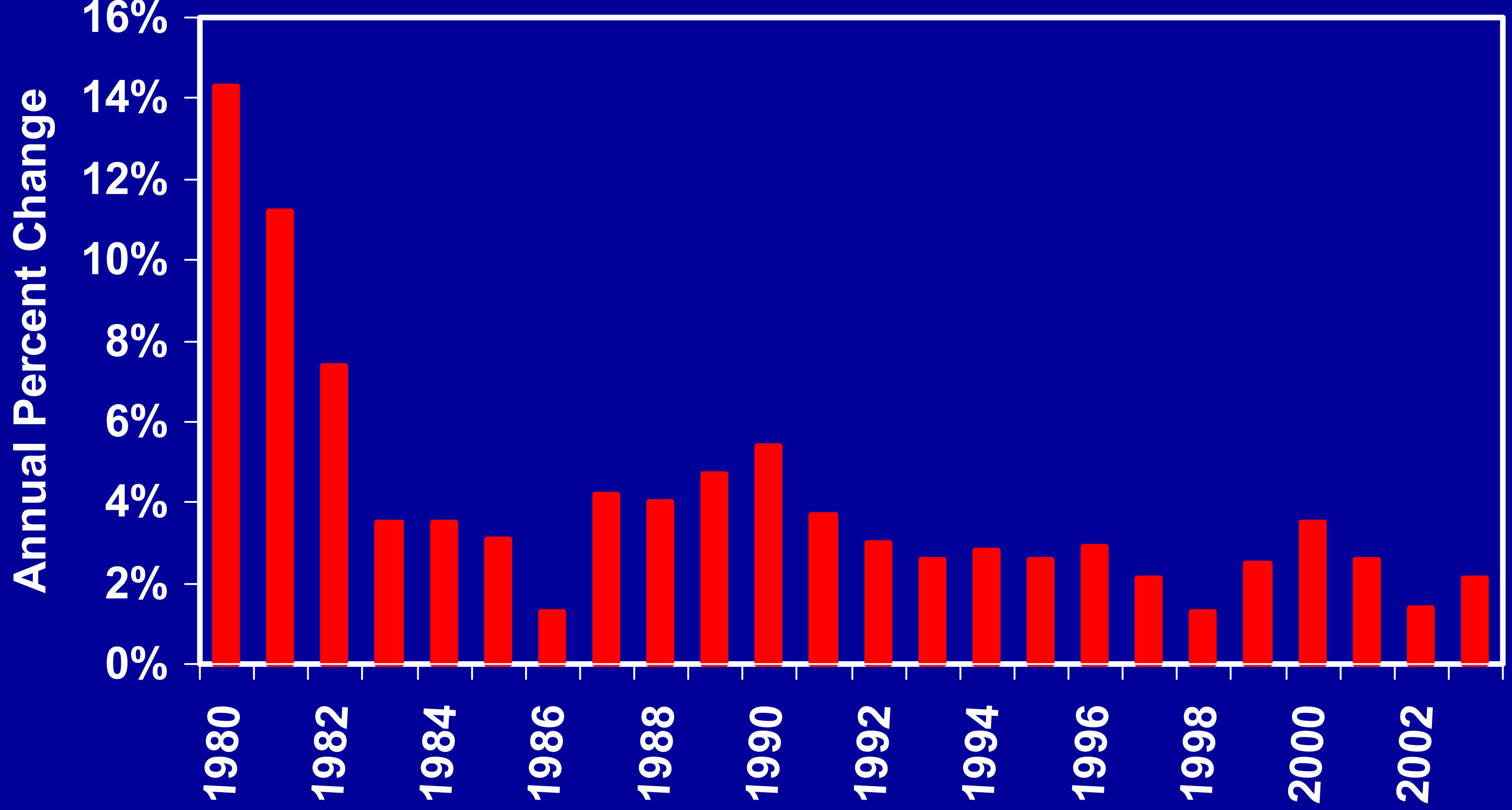
Consumer Price Indices

Urban Wage Earners and Clerical Workers

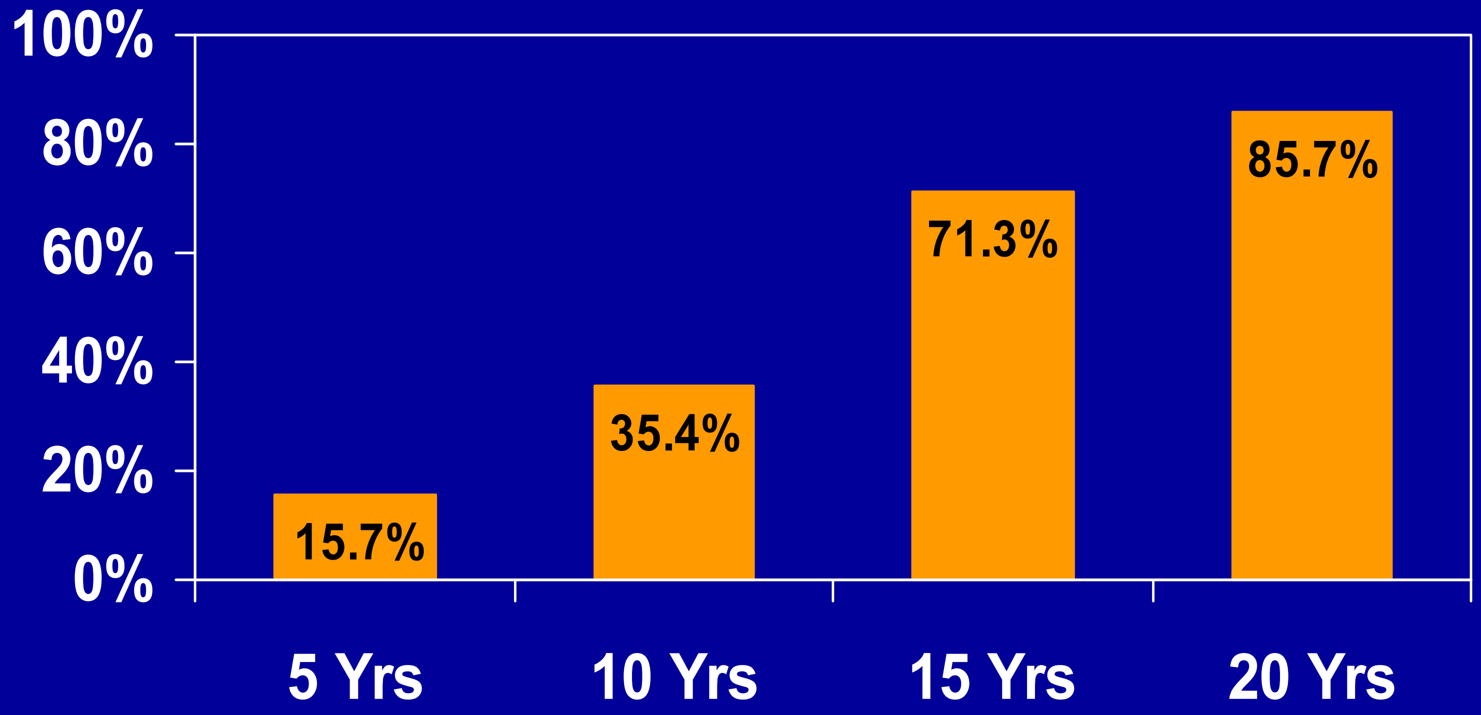


Social Security Benefit

Annual % Change



Increases in Seattle Consumer Prices by Select Periods



PERS/TRS 1 COLA Benefits

Uniform Benefit: At age 66, after 1 yr of retirement, a dollar amount per month per year of service increased each year by 3%

LEOFF 1 COLA Benefits

Benefit fully indexed to the Seattle CPI-W

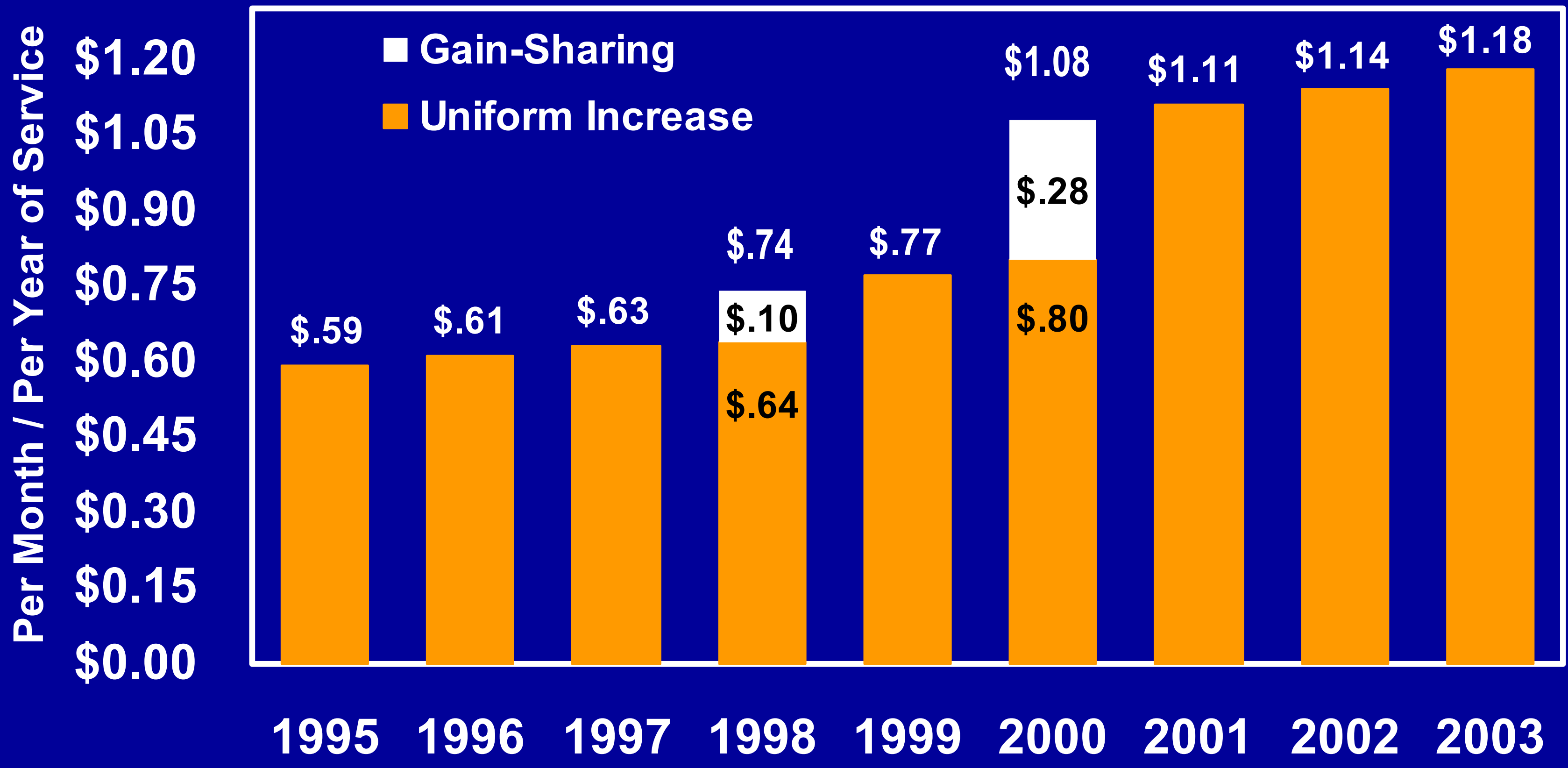
Plan 2 COLA Benefits

After 1 year of retirement at age 65, annual increases based on the Seattle CPI-W to a maximum of 3% per year

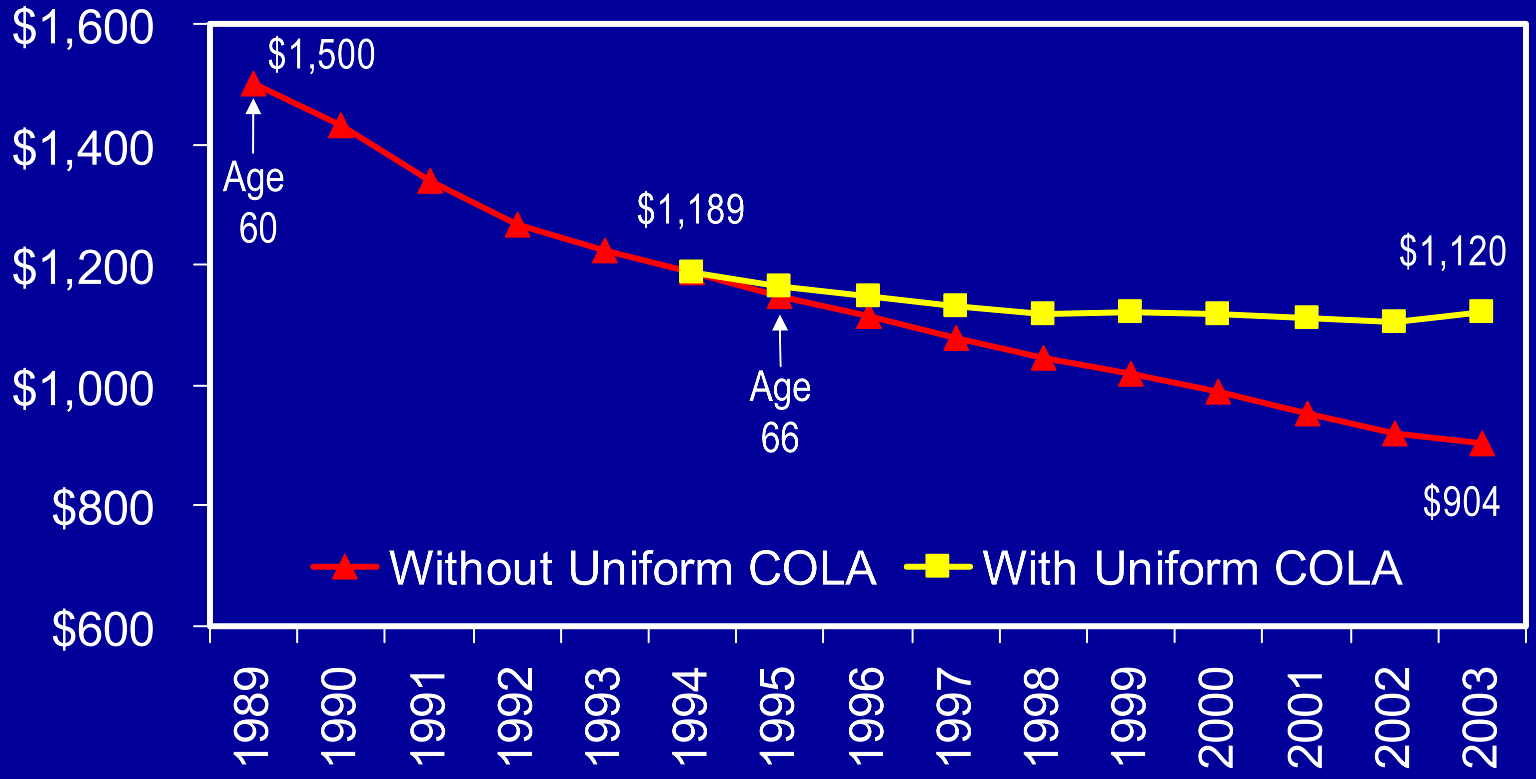
Plan 3 COLA Benefits

After 1 year of retirement, annual increases in the defined benefit portion based on the Seattle CPI-W to a maximum of 3% per year

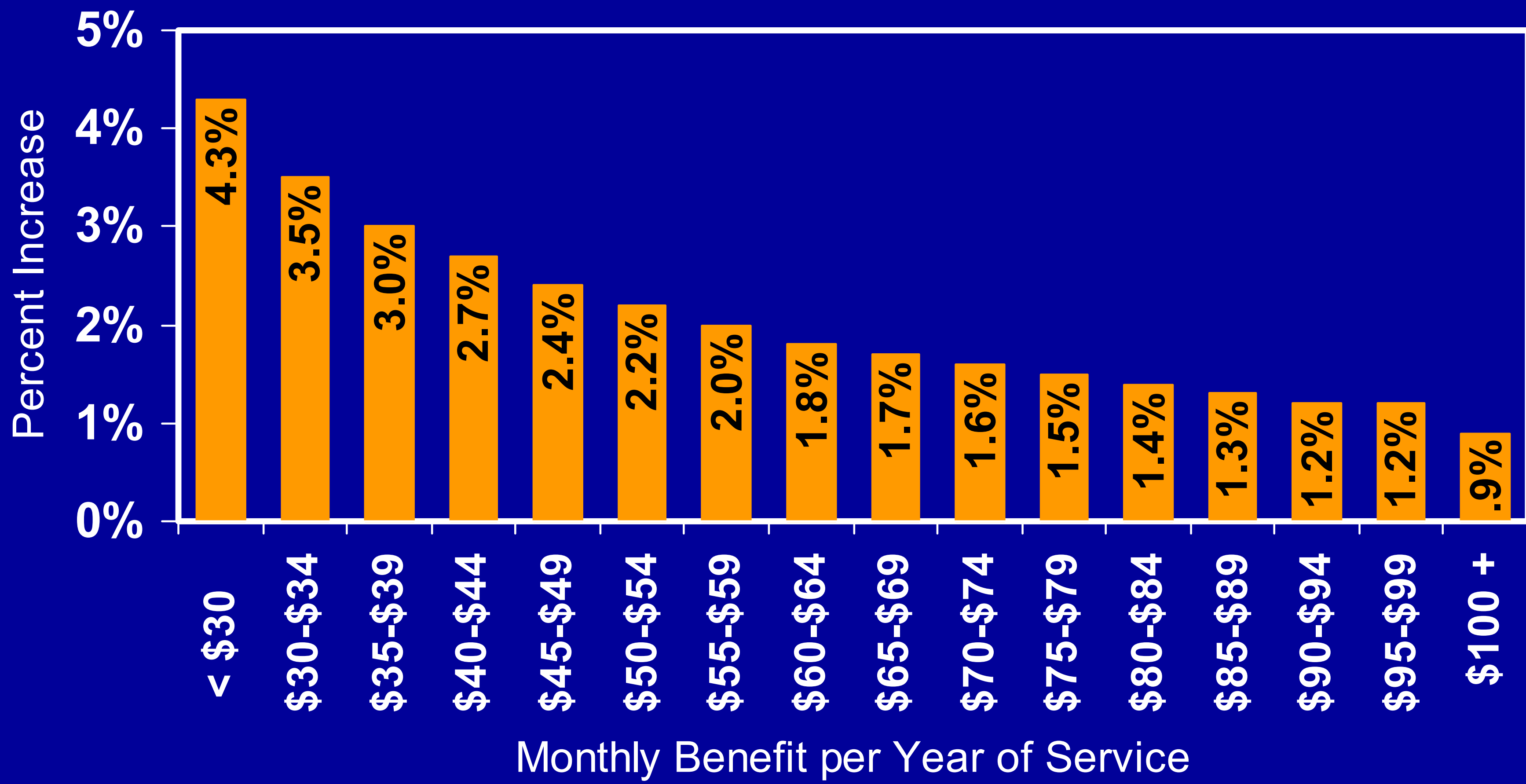
PERS/TRS Plan 1
Uniform Increase Amount



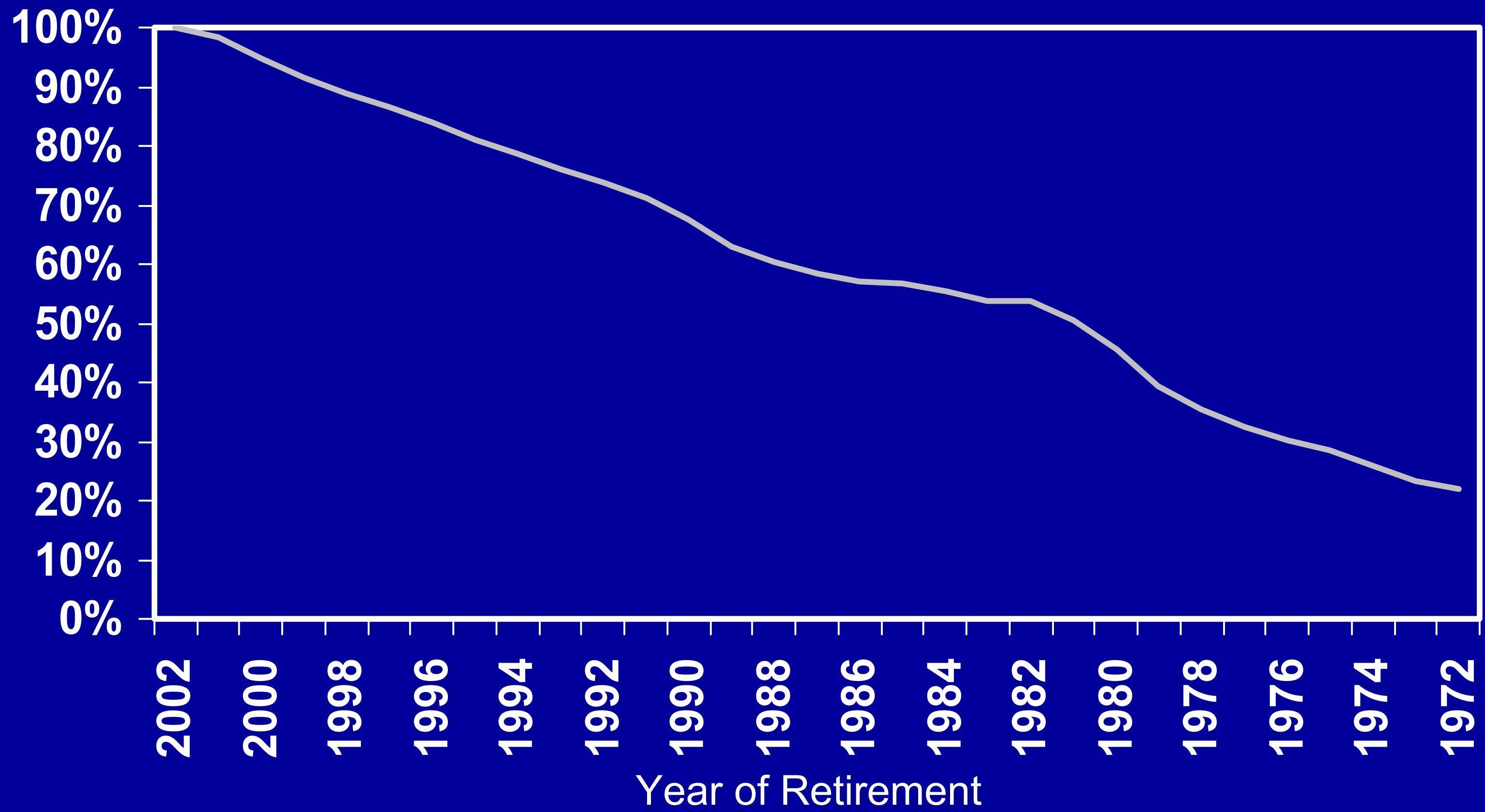
Plan 1 Benefit Purchasing Power With and Without Uniform COLA



Uniform COLA % Increase by Monthly Benefit per YOS at 9-30-2002

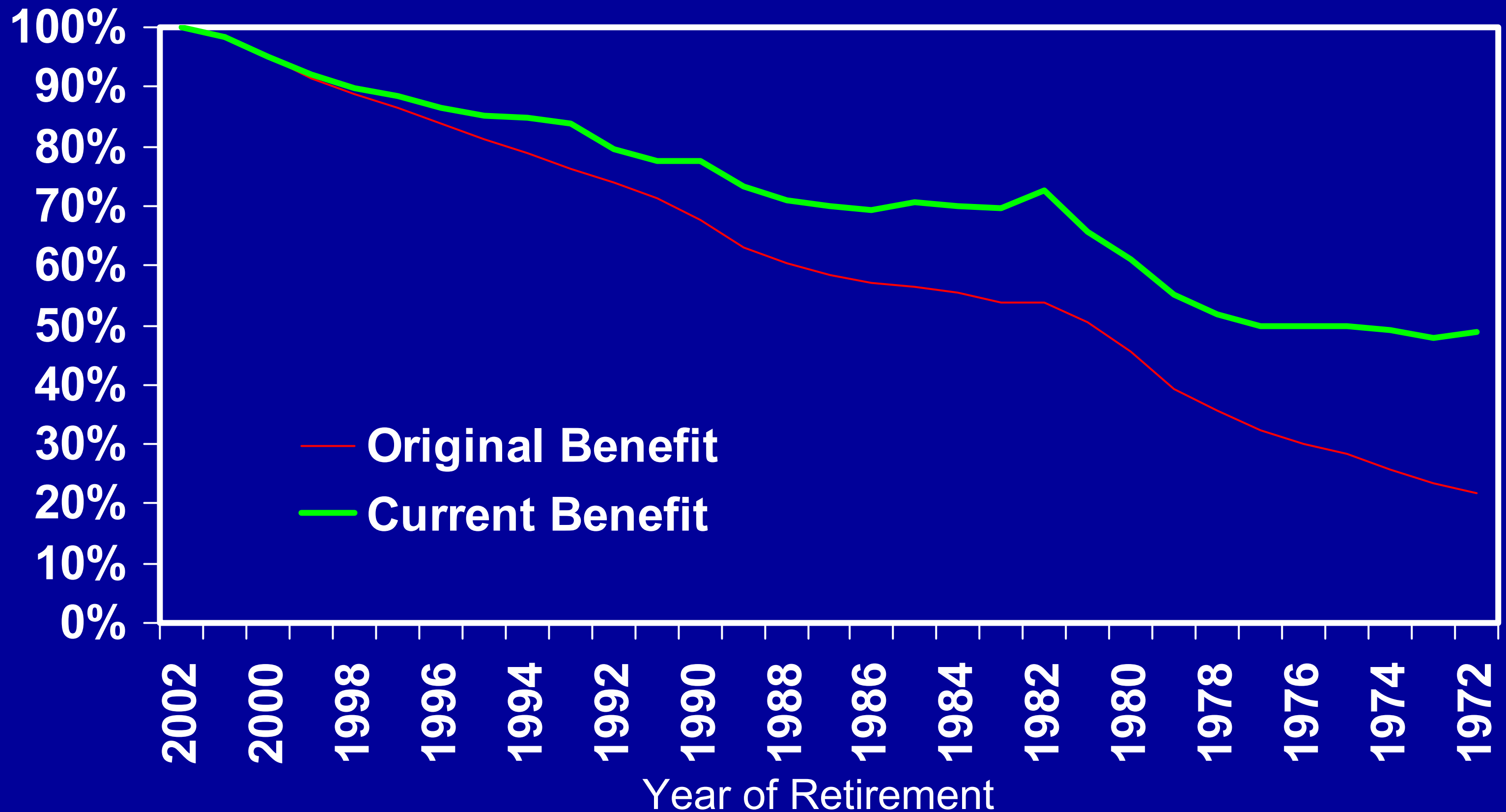


Purchasing Power of a Fixed-Dollar Benefit in 2002



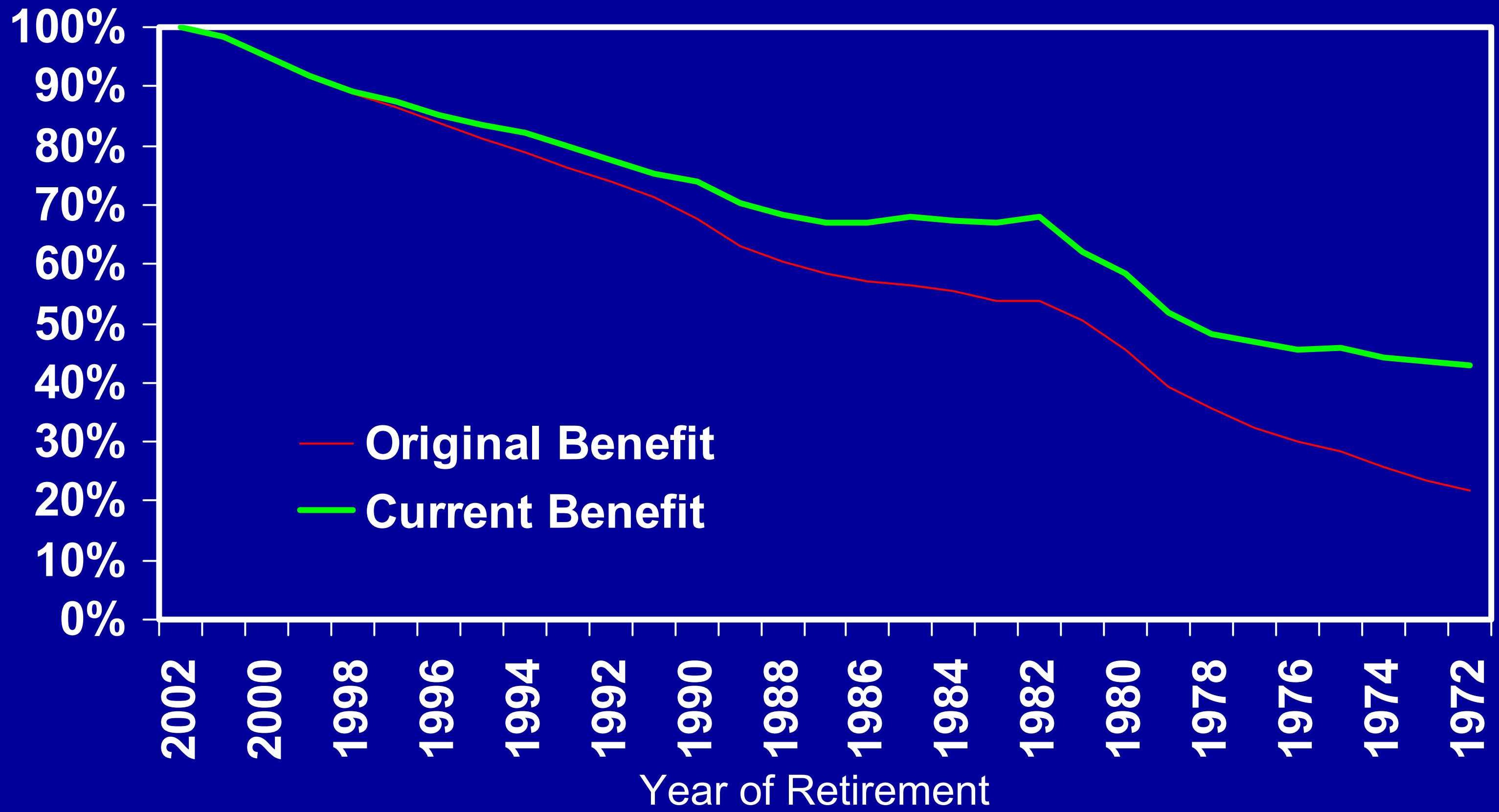
Based on consumer price increases as measured by the CPI-W for Seattle-Tacoma-Bremerton.

Purchasing Power of PERS 1 Service Benefits in 2002



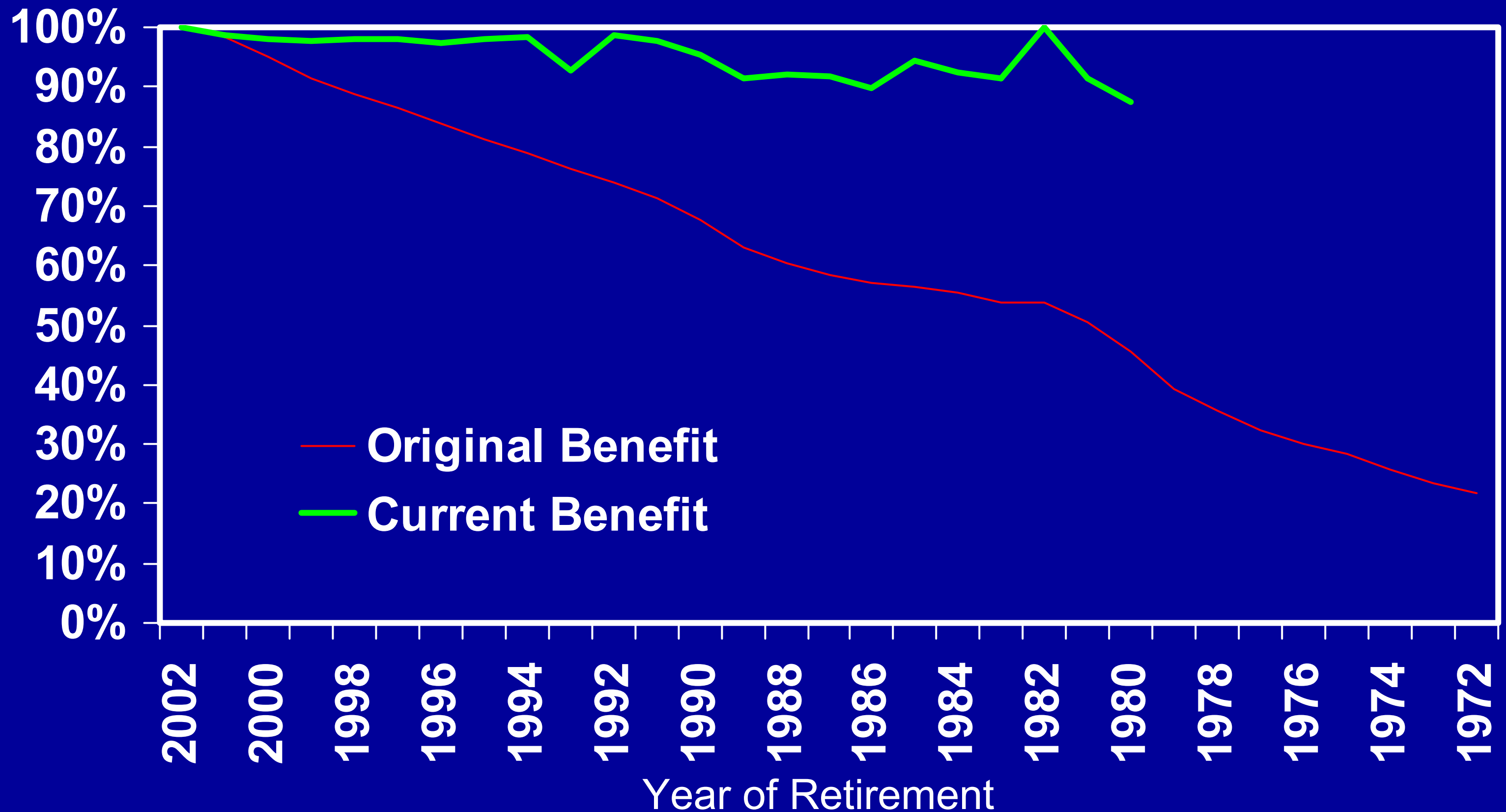
Based on consumer price increases as measured by the CPI-W for Seattle-Tacoma-Bremerton.

Purchasing Power of TRS 1 Service Benefits in 2002



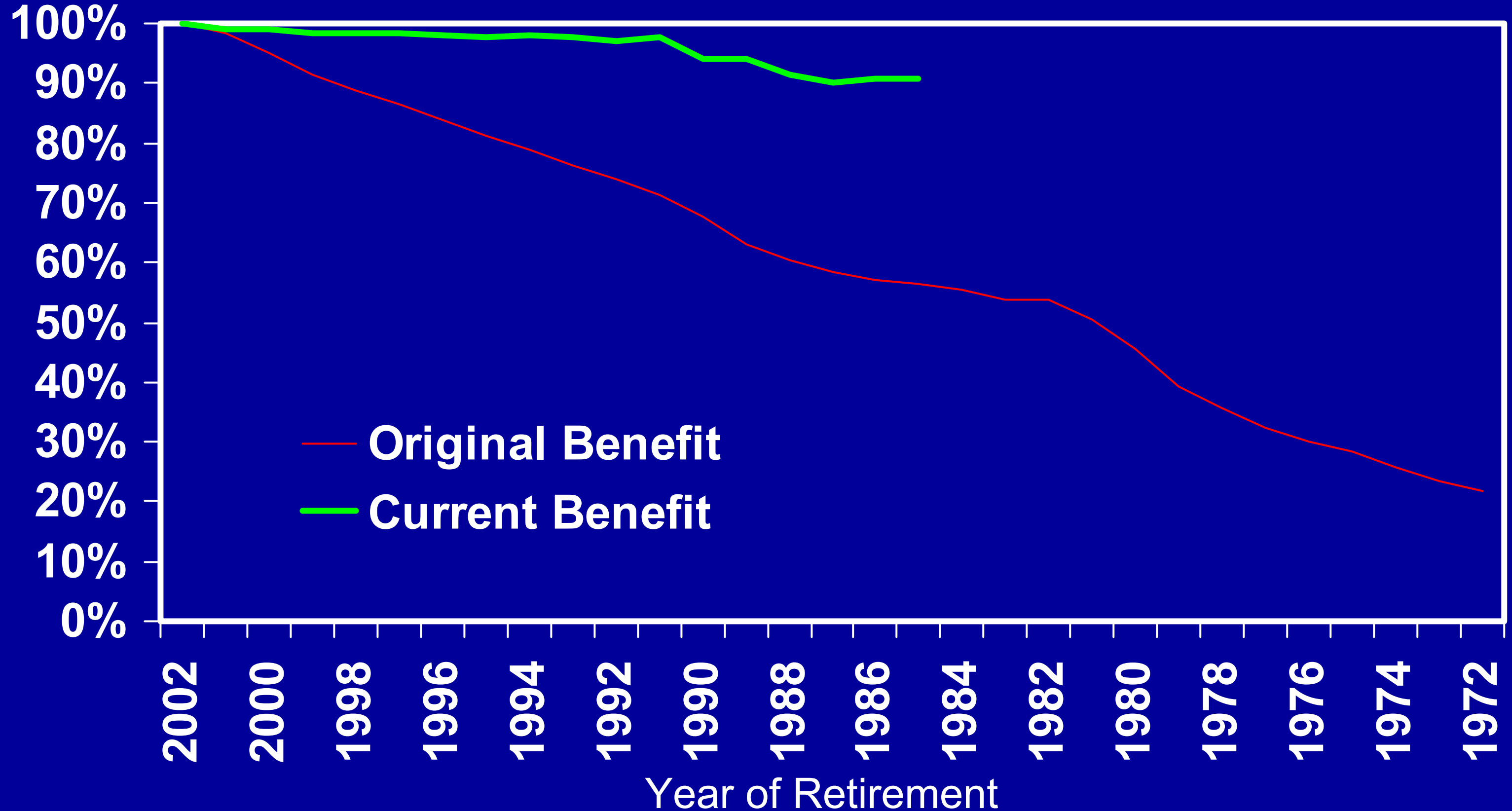
Based on consumer price increases as measured by the CPI-W for Seattle-Tacoma-Bremerton.

Purchasing Power of PERS 2/3 Service Benefits in 2002



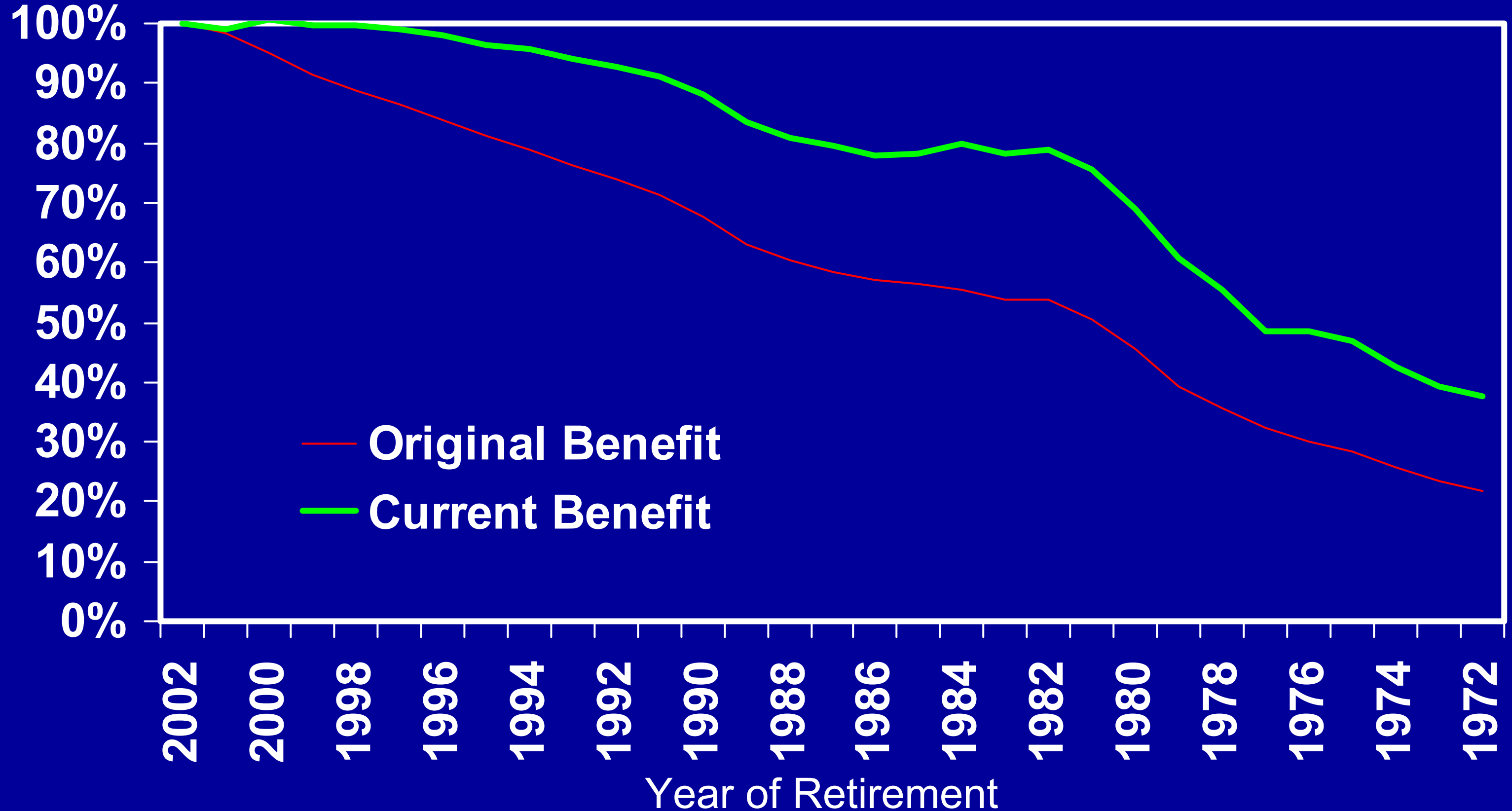
Based on consumer price increases as measured by the CPI-W for Seattle-Tacoma-Bremerton.

Purchasing Power of TRS 2/3 Service Benefits in 2002



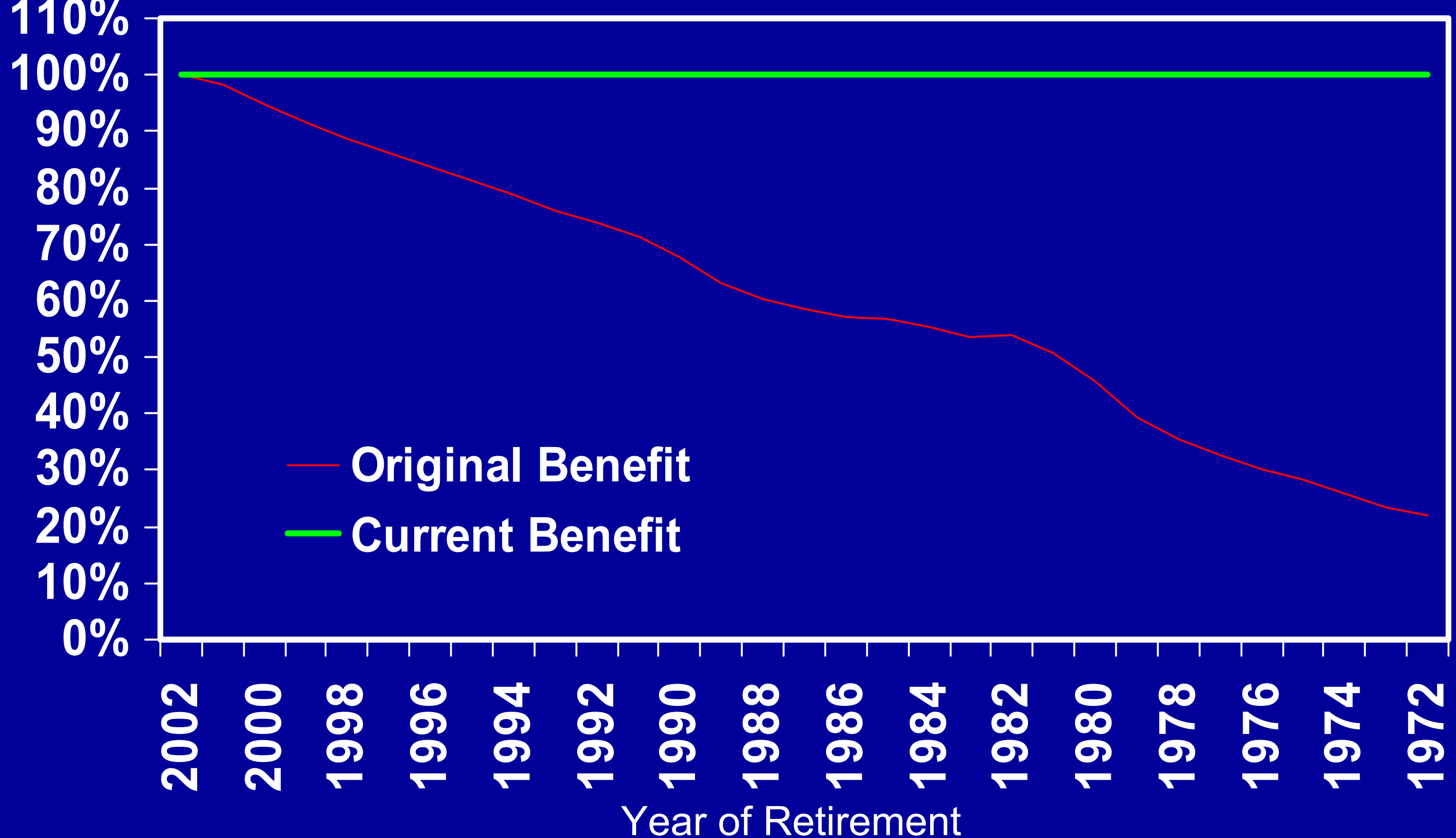
Based on consumer price increases as measured by the CPI-W for Seattle-Tacoma-Bremerton.

Purchasing Power of WSPRS Service Benefits in 2002



Based on consumer price increases as measured by the CPI-W for Seattle-Tacoma-Bremerton.

Purchasing Power of LEOFF 1 Service Benefits in 2002



Based on consumer price increases as measured by the CPI-W for Seattle-Tacoma-Bremerton.

% of Total Expenditures by Category for Working and Retired

	Working	Retired
Food & Beverages	14.1%	14.8%
Housing	32.7%	33.2%
Apparel	4.7%	3.2%
Transportation	19.8%	17.1%
Health care	4.3%	12.8%
Entertainment	5.0%	4.7%
Insurance	10.7%	3.3%
Other	8.8%	10.9%

Source: Consumer Expenditure Survey USDOL/BLS

Conclusion

- Inflation – The lower the better
- PERS 1 and TRS 1 – Gradual purchasing power losses may result in significant diminishment of benefit value
- Plans 2/3 – later retirement age trade-off for 3% COLA proves worthwhile

END

Smoothing Corridor

Background

It is common for actuaries to use an asset valuation method, to calculate the actuarial value of assets, that smoothes out the effects of short-term volatility in the underlying market value of assets. The current asset smoothing method, however, has no restrictions on the amount that the "smoothed" or actuarial value of assets may deviate from the underlying market value of assets. Chapter 11, Laws of 2003, E1, extended the length of the smoothing period for larger investment gains and losses (up to 8 years) and shortened the length of the smoothing period for smaller gains and losses. Under the current asset smoothing method it is conceivable that during extending periods of asset losses or gains, the actuarial value of assets my produce contribution rates that are not reasonable or dependable.

Committee Activity

Presentation:
November 18, 2003 – Executive Committee Meeting
December 16, 2003 – Full Committee Meeting

Proposal Approved:
December 16, 2003 – Full Committee Meeting

Recommendation to Legislature

Add a 30% market value corridor to the existing asset smoothing method used to determine contribution rates for the state retirement systems. The proposed corridor would ensure that the actuarial value of assets would never exceed 130% of the market value of assets nor drop below 70% of the market value of assets as of the valuation date.

Staff Contact

Matthew M. Smith – 753-9144 – smith_ma@leg.wa.gov

Smoothing Corridor

(December 9, 2003)

Issue	Add a market value corridor to the existing asset smoothing method used to determine contribution rates for the state retirement systems; by request of the State Actuary.
Staff	Matthew M. Smith - 360-753-9144 State Actuary
Members Impacted	This proposed change would affect future employer contribution rates in PERS, TRS, SERS, LEOFF and WSP. It would also affect future employee contribution rates in WSP and future contribution rates for plan 2 members in PERS, TRS, SERS and LEOFF.
Current Situation	The current asset smoothing method has no restrictions on the amount that the “smoothed” or actuarial value of assets may deviate from the underlying market value of assets.
History	There have been no previous efforts to address this issue. Chapter 11, Laws of 2003, E1, extended the length of the smoothing period for larger gains and losses (up to 8 years) and shortened the length of the smoothing period for smaller gains and losses.

Policy Analysis

The funding policy of the Legislature is contained in Chapter 41.45 RCW - Actuarial Funding of State Retirement Systems. RCW 41.45.010 outlines the intent to achieve several funding goals. Two of the goals listed in that section specifically pertain to this issue and are listed below:

- To provide a dependable and systematic process for funding the benefits to members and retirees of the Washington State Retirement Systems;

- To establish predictable and long-term employer contribution rates which will remain a relatively constant proportion of future state budgets.

The asset smoothing method adopted during the 2003 legislative session (Chapter 11, Laws of 2003, E1) was intended to address the volatility of contribution rates under the aggregate funding method when used in combination with the existing asset allocation policy. The longer smoothing period employed under the new method for larger annual asset gains and losses will reduce the volatility of future contribution rates once they return to their long-term expected levels. Without a direct relationship with the underlying market value of assets, however, it is conceivable that during extended periods of asset losses or gains, the actuarial value of assets may produce contribution rates that are not reasonable or dependable.

Options

The most common approach in the private sector is to apply a market value corridor on the actuarial value of assets.

Example of Market Value Corridor

a. Market value of assets at valuation date	$1,000,000
b. Deferred investment gains/(losses)	($250,000)
c. Unadjusted actuarial value of assets (a-b)	$1,250,000
d. 80% of the market value of assets (0.80 x a)	$800,000
e. 120% of the market value of assets (1.20 x a)	$1,200,000
f. Actuarial value of assets at valuation date (c, but not less than d nor greater than e)	$1,200,000

The example above illustrates the application of a 20% market value corridor. This is the required market value corridor for qualified private-sector plans as regulated by the IRS for purposes of determining minimum funding and maximum tax-deductible employer contributions. Public sector plans are exempt from these regulations.

Width of Corridor

The appropriate width of the corridor will depend on the plan sponsor's desire to balance two competing objectives:

- Contribution rate stability; and
- Contribution rate adequacy

The volatility of future investment returns depends, in large part, on the plan's asset allocation policy. The heavier the weight in equity-type investments (stocks, real estate, etc.), versus fixed-income investments (bonds, mortgages, etc.), the larger the potential for volatility in future investment returns.

Turning to contribution rates, the narrower the smoothing corridor (closer to market value), the larger the potential for volatility in future contribution rates. On the other hand, the wider the smoothing corridor (away from market value), the smaller the potential for volatility in future contribution rates. However, without a market value corridor, it is conceivable that during extended periods of asset losses the actuarial value of assets may produce contribution rates that are inadequate.

Recommendation of State Actuary

- 30% market value corridor

A 30% corridor would strike the appropriate balance between contribution rate stability and contribution rate adequacy for the funding of benefits in the state retirement systems. The appropriateness of the asset smoothing corridor should be reviewed periodically against the goals of the actuarial funding chapter.

Executive Committee Recommendation

Forward the issue to the Full Committee for their consideration.

Bill Draft

See attachment.

Fiscal Note (Draft)

See attachment.

FISCAL NOTE – DRAFT

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**12/09/03**	**Z-0872.1/04**

SUMMARY OF BILL:

This bill impacts the Public Employees, School Employees, Teachers, Law Enforcement and Fire Fighters and State Patrol Retirement Systems by limiting the amount that the actuarial or "smoothed" value of assets may deviate from the underlying market value of assets for purposes of determining employer contributions in Plans 1 and 2/3 and employee contributions in the Plans 2.

Beginning with actuarial studies performed after July 1, 2004, the actuarial value of assets would not be allowed to exceed 130% of the market value of assets or drop below 70% of the market value of assets as of the valuation date.

This bill would require the state actuary to periodically review the appropriateness of the asset smoothing method and recommend changes to the legislature as necessary.

Effective Date: 90 days after session.

CURRENT SITUATION:

The current asset smoothing method defined under RCW 41.45.035 has no restrictions on the amount that the "smoothed" or actuarial value of assets may deviate from the underlying market value of assets.

MEMBERS IMPACTED:

This bill would affect future employee contribution rates in PERS 2, SERS 2, TRS 2, LEOFF 2 and in WSPRS when the 30% market value corridor is triggered in the future. In total, there were 162,664 active members in PERS 2, SERS 2, TRS 2, LEOFF 2 and in WSPRS as of September 30, 2002.

FISCAL IMPACT:

Estimated long-term fiscal impact: None

As of the latest actuarial valuation report (9/30/2002), the ratio of the actuarial value of assets to the market value of assets was 130% (for all systems combined). This ratio varies by system and plan (see table below).

Ratio of Actuarial to Market Value of Assets as of 9/30/2002

PERS 1	PERS 2/3	TRS 1	TRS 2/3	SERS 2/3	LEOFF 1	LEOFF 2	WSP
131%	130%	135%	132%	131%	125%	124%	125%

Ratio of Actuarial to Market Value of Assets as of 9/30/2003*

PERS 1	PERS 2/3	TRS 1	TRS 2/3	SERS 2/3	LEOFF 1	LEOFF 2	WSP
118%	116%	124%	120%	116%	110%	109%	110%

* Estimate

The proposed smoothing corridor would begin with actuarial studies performed after July 1, 2004 and as a result would first apply to the September 30, 2003 actuarial valuation. There would be no long-term impact on projected contribution rates, based on an investment return assumption of 8% per year, since the actuarial value of assets for each system and plan is within the 30% corridor as of September 30, 2003.

Actual investment experience over short-term periods will vary. Successive years of significant investment gains or losses, relative to the 8% assumption, over a short-term experience period may cause the actuarial value of assets to fall outside the proposed smoothing corridor. Under these circumstances, the proposed smoothing corridor would decrease contribution rates when plan asset values fall below the corridor and increase contribution rates when asset values exceed the corridor.

AN ACT Relating to establishing an asset smoothing corridor for actuarial valuations used in the funding of the state retirement systems; and amending RCW 41.45.020 and 41.45.035.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.45.020 and 2003 c 295 s 8 are each amended to read as follows:

As used in this chapter, the following terms have the meanings indicated unless the context clearly requires otherwise.

(1) "Council" means the pension funding council created in RCW 41.45.100.

(2) "Department" means the department of retirement systems.

(3) "Law enforcement officers' and fire fighters' retirement system plan 1" and "law enforcement officers' and fire fighters' retirement system plan 2" means the benefits and funding provisions under chapter 41.26 RCW.

(4) "Public employees' retirement system plan 1," "public employees' retirement system plan 2," and "public employees' retirement system plan 3" mean the benefits and funding provisions under chapter 41.40 RCW.

(5) "Teachers' retirement system plan 1," "teachers' retirement system plan 2," and "teachers' retirement system plan 3" mean the benefits and funding provisions under chapter 41.32 RCW.

(6) "School employees' retirement system plan 2" and "school employees' retirement system plan 3" mean the benefits and funding provisions under chapter 41.35 RCW.

(7) "Washington state patrol retirement system" means the retirement benefits provided under chapter 43.43 RCW.

(8) "Unfunded liability" means the unfunded actuarial accrued liability of a retirement system.

(9) "Actuary" or "state actuary" means the state actuary employed under chapter 44.44 RCW.

(10) "State retirement systems" means the retirement systems listed in RCW 41.50.030.

(11) "Classified employee" means a member of the Washington school employees' retirement system plan 2 or plan 3 as defined in RCW 41.35.010.

(12) "Teacher" means a member of the teachers' retirement system as defined in RCW 41.32.010(15).

(13) "Select committee" means the select committee on pension policy created in RCW 41.04.276.

<u>(14) "Actuarial value of assets" means the value of pension plan investments and other property used by the actuary for the purpose of an actuarial valuation.</u>

Sec. 2. RCW 41.45.035 and 2003 1st sp.s. c 11 s 1 are each amended to read as follows:

(1) Beginning July 1, 2001, the following long-term economic assumptions shall be used by the state actuary for the purposes of RCW 41.45.030:

(a) The growth in inflation assumption shall be 3.5 percent;

(b) The growth in salaries assumption, exclusive of merit or longevity increases, shall be 4.5 percent;

(c) The investment rate of return assumption shall be 8 percent; and

(d) The growth in system membership assumption shall be 1.25 percent for the public employees' retirement system, the school employees' retirement system, and the law enforcement officers' and fire fighters' retirement system. The assumption shall be .90 percent for the teachers' retirement system.

(2)<u>(a)</u> Beginning with actuarial studies done after July 1, 2003, changes to plan asset values that vary from the long-term investment rate of return assumption shall be recognized <u>in the actuarial value of assets</u> over a period that varies up to eight years depending on the magnitude of the deviation of each year's investment rate of return relative to the long-term rate of return assumption. <u>Beginning with actuarial studies performed after July 1, 2004, the actuarial value of assets shall not be greater than one hundred thirty percent of the market value of assets as of the valuation date or less than seventy percent of the market value of assets as of the valuation date.</u> Beginning April 1, 2004, the council, by affirmative vote of four councilmembers, may adopt changes to this asset value smoothing technique. Any changes adopted by the council shall be subject to revision by the legislature.

<u>(b) The state actuary shall periodically review the appropriateness of the asset smoothing method in this section and recommend changes to the legislature as necessary.</u>

--- END ---

State Patrol Death-in-Service Survivor Benefit

Background

Beneficiaries of a WSPRS plan 2 member who dies in the line of duty, is not eligible to retire, and has less than 10 years of service, receive a refund of the member's contributions plus interest.

Beneficiaries of a WSPRS 2 member who dies in the line of duty, is eligible to retire or has at least 10 years of service, receive either a refund of 150% of the member's contributions plus interest, or a joint and 100% retirement allowance actuarially reduced from first retirement eligibility (benefit includes an annual CPI-based COLA of up to 3%).

Survivors of law enforcement officers who die in the line of duty are eligible to receive a $150,000 lump-sum Federal benefit.

Survivors are also eligible for tax-free benefits from Labor and Industries of up to 120% of the state annual average wage ($37,940 in 2002).

Chapter 155, Laws of 2003 provides that the retirement benefits of PERS, SERS, and TRS members killed in the course of employment are not actuarially reduced, but are rather calculated as an unreduced immediate benefit.

Committee Activity

Presentation:
November 18, 2003 - Full Committee Meeting

Recommendation to Legislature

The death-in-service survivor benefit for Washington State Patrol Retirement System (WSPRS) plan 2 beneficiaries should be the unreduced earned benefit of the member.

Staff Contact

Robert Wm. Baker – 586-9237 – baker_bo@leg.wa.gov

State Patrol Death-in-Service Survivor Benefit

(November 12, 2003)

Issue

The Washington State Patrol Troopers Association has requested that the death-in-service survivor benefit for Washington State Patrol Retirement System (WSPRS) plan 2 beneficiaries be the unreduced earned benefit of the member.

Staff

Robert Wm. Baker (360) 586-9237

Members Impacted

All members of the Washington State Patrol Retirement System who become members after January 1, 2003 would be affected by this change.

Current Situation

Beneficiaries of a WSPRS plan 2 member who dies in the line of duty, is not eligible to retire, and has less than 10 years of service, receive a refund of the member's contributions plus interest.

Beneficiaries of a WSPRS 2 member who dies in the line of duty, is eligible to retire or has at least 10 years of service, receive either:

- A refund of 150% of the member's contributions plus interest; or
- A joint and 100% retirement allowance actuarially reduced from first retirement eligibility (benefit includes an annual CPI-based COLA of up to 3%).

Survivors of law enforcement officers who die in the line of duty are eligible to receive a $150,000 lump-sum Federal benefit.

Survivors are also eligible for tax-free benefits from Labor and Industries of up to 120% of the state annual average wage ($37,940 in 2002).

Policy Analysis

Chapter 155, Laws of 2003 provides that the retirement benefits of PERS, SERS, and TRS members killed in the course of employment are not actuarially reduced, but are rather calculated as an unreduced immediate benefit.

Survivors of active LEOFF 1 members receive 50% of the member's final average salary at the date of death.

Survivors of active LEOFF 2 members who had less than 10 years of service and were not eligible to retire receive a refund of the member's contributions plus interest.

Survivors of active LEOFF 2 members who had at least 10 years of service or were eligible to retire receive either:

- A refund of 150% of the member's contributions plus interest, or
- a monthly allowance calculated as a joint and 100% survivor benefit actuarially reduced from age 53.

Stakeholder Input

See attachment

Estimated Fiscal Impact

See attachment

Bill Draft

See attachment

WASHINGTON STATE PATROL TROOPERS ASSOCIATION

200 UNION AVE. SE STE. 200 , OLYMPIA, WASHINGTON 98501 (360) 704-7530 FAX (360) 704-7527

September 16, 2003

The Honorable Chair & Members
Select Committee on Pension Policy
2420 Bristol Court SW, Suite 101
Olympia, WA 98504

Dear Members,

On behalf of the active and retired members of the Washington State Patrol Troopers Association the follow are issues relating to the Washington State Patrol Retirement Systems Plan 1 and Plan 2 that we would like addressed by the Select Committee for 2004 Legislative consideration.

1. During the 2003 Legislative Session HB 1323, an act relating to the mandatory retirement age of WSPRS Plan 1 and Plan 2, was introduced and presented to the House Appropriations Committee. The bill extends the current mandatory retirement from age 60 to age 65. Both WSPRS 1 & 2 are service-based systems allowing for a retirement benefit after 25 years of service. The age 60 mandatory limit was established when Plan 1 had an age 30-entry limit. That limit was removed many years ago and as a result officers have been hired at ages over 30 and in some cases over 40, not allowing the member to serve 25 years before mandatory retirement. We feel the time has come to extend the mandatory limit to age 65.
2. The 2003 Legislature passed HB 1519, an act relating to death benefits for members of TRS, School Employees' Retirement System, and PERS. The new law provides for a survivor benefit paid to a survivor of a member killed in the "course of employment that is subject to an early retirement actuarial reduction. We propose that this same benefit be applied to members of WSPRS Plan 2. Currently the Death in Service Survivor Benefit for State Patrol Officers in Plan 2 with less than 10 years service the beneficiary receives only accumulated contributions to the system. The beneficiaries of officers killed in the line of duty should be provided with a benefit that is not actuarially reduced or a lump sum of contributions, but a monthly benefit as provided in HB 1519 or identical to that provided to WSPRS Plan 1 members.

Your attention to these issues will be greatly appreciated.

Sincerely,

Robert C. Thurston

Robert C. Thurston
President

CC: Rick Jensen, Governmental Affairs

FISCAL NOTE – DRAFT

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**11/12/03**	**Z-0873.1/04**

SUMMARY OF BILL:

This bill impacts the Washington State Patrol (WSP) Retirement System Plan 2 by providing that the survivor benefit of a member killed in the course of employment, after having accumulated at least 10 years of service, is not subject to an early retirement actuarial reduction. This bill applies to any member killed in the course of employment, as determined by the director of the Department of Labor and Industries, on or after the effective date of this act.

Effective Date: 90 days after session.

CURRENT SITUATION:

Currently, a survivor of an active member who dies with less than 10 years of service credit is eligible to receive a cash refund of the member's contributions plus interest. If an active member dies with 10 or more years of service credit, their beneficiary or surviving spouse is eligible to receive either a cash refund of 150% of the member's contributions plus interest, or a monthly benefit actuarially reduced to reflect a joint and 100% survivor option and further reduced to reflect the difference in the member's age at death and the age of full retirement eligibility.

MEMBERS IMPACTED:

All the future active members of WSP 2 could potentially be affected by this bill. Our experience data, however, indicate that few would die in the course of employment and, as a result, few survivors would actually receive this enhanced benefit.

We estimate that 20 percent of deaths are duty-related deaths in WSP 2. Not all of these deaths, however, would occur after the member has earned at least 10 years of service (the service needed to receive this benefit). A percentage of the survivors of these duty-related deaths will elect to take the cash refund of the member's contributions plus interest instead of this improved benefit. The survivor of a member who dies after being eligible for an unreduced benefit would not be affected as well.

FISCAL IMPACT:

None while the plan remains fully funded. In other words, the actuarial value of assets exceeds the actuarial present value of projected benefits <u>before and after</u> this proposed benefit change.

As of our most recent valuation date, there were no plan 2 members in the WSPRS. As plan 2 members enter the plan and ultimately replace the existing plan 1 members, the long-term plan cost would increase by .04% of pay (in total) and by .02% of pay for members.

AN ACT Relating to death benefits for members of the Washington state patrol retirement system plan 2; and amending RCW 43.43.295.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 43.43.295 and 2003 c 294 s 15 are each amended to read as follows:

(1) For members commissioned on or after January 1, 2003, except as provided in RCW 11.07.010, if a member or a vested member who has not completed at least ten years of service dies, the amount of the accumulated contributions standing to such member's credit in the retirement system at the time of such member's death, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's estate, or such person or persons, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department. If there be no such designated person or persons still living at the time of the member's death, such member's accumulated contributions standing to such member's credit in the retirement system, less any amount identified as owing to an obligee upon withdrawal of accumulated

contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's surviving spouse as if in fact such spouse had been nominated by written designation, or if there be no such surviving spouse, then to such member's legal representatives.

(2) If a member who is eligible for retirement or a member who has completed at least ten years of service dies, the surviving spouse or eligible child or children shall elect to receive either:

(a) A retirement allowance computed as provided for in RCW 43.43.260, actuarially reduced<u>, except under subsection (4) of this section,</u> by the amount of any lump sum benefit identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670 and actuarially adjusted to reflect a joint and one hundred percent survivor option under RCW 43.43.278 and if the member was not eligible for normal retirement at the date of death a further reduction from age fifty-five or when the member could have attained twenty-five years of service, whichever is less; if a surviving spouse who is receiving a retirement allowance dies leaving a child or children of the member under the age of majority, then such child or children shall continue to receive an allowance in an amount equal to that which was being received by the surviving spouse, share and share alike, until such child or children reach the age of majority; if there is no surviving spouse eligible to receive an allowance at the time of the member's death, such member's child or children under the age of majority shall receive an allowance share and share alike calculated under this section making the assumption that the ages of the spouse and member were equal at the time of the member's death; or

(b)(i) The member's accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670; or

(ii) If the member dies, one hundred fifty percent of the member's accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670. Any accumulated contributions attributable to restorations made under RCW 41.50.165(2) shall be refunded at one hundred percent.

(3) If a member who is eligible for retirement or a member who has completed at least ten years of service dies, and is not survived by a

spouse or an eligible child, then the accumulated contributions standing to the member's credit, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid:

(a) To an estate, a person or persons, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department; or

(b) If there is no such designated person or persons still living at the time of the member's death, then to the member's legal representatives.

(4) The retirement allowance of a member who is killed in the course of employment, as determined by the director of the department of labor and industries, is not subject to an actuarial reduction.

--- END ---